P3 Public Private Partnerships

Alberta Infrastructure Guidance Document

Alberta
INFRASTRUCTURE

Excerpt from the February 18, 2003 Speech from the Throne Delivered by Her Honour, the Lieutenant Governor, Lois E. Hole

"One of the key supports for a strong economy is a solid infrastructure.

As Alberta has grown, so has its need for health facilities, schools and roads. The province's unprecedented economic growth has surpassed its investment in capital projects, and Albertans aren't willing to wait until tomorrow for the infrastructure they need today.

That's why the government will develop a new capital plan to address infrastructure needs. Budget 2003 will call for significant new investment in each of the next three years toward this priority area. This approach will bring predictability and stability to capital spending, and end the pattern of deferring sorely needed infrastructure projects when provincial revenues fall unexpectedly.

The capital plan will include a framework for public/private partnerships that will pull together the best resources and skills from both the public and private sectors. An advisory committee of experts will be struck to evaluate proposals over the life of a project to determine whether there is a net benefit to taxpayers.

The government recognizes that the partnership approach will not be the right solution for every project, nor will it replace conventional pay-as-you-go capital financing. However, there are some situations where such an approach may work well. The government will carefully consider partnerships and all other options so that Alberta can meet its infrastructure needs at an affordable price.

The government understands that existing infrastructure must be preserved and maintained in order to continue to serve Albertans in the future. Looking after the infrastructure the province already has will continue to be a high priority for this government. So, too, will be working in partnership with municipalities under the Premier's Task Force on Infrastructure to address their infrastructure needs."

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Introduction

Purpose

This document is a guide to Alberta Infrastructure's approach to undertaking and assessing Public Private Partnerships (P3s) for building infrastructure projects.

Definition

A Public Private Partnership is defined as a cooperative venture between the public and private sectors, built on the expertise of each partner, that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards.[1]

Background - Financial Management Commission Report

The Financial Management Commission[2] recommended that government and Supported Infrastructure Organizations (school boards, health authorities and post-secondary institution boards, known as SIOs) should be allowed to enter into alternative funding arrangements for capital projects, under specific conditions and with appropriate guidelines. Government approved this recommendation.

Recommendations to prepare three- to five-year capital plans, infrastructure plans, and business cases for capital projects were also approved. These recommendations provide the framework for Alberta to implement public-private partnerships as an alternative approach to financing and developing capital projects.

Capital and infrastructure plans have been prepared and business case standards and training have been implemented across government and public sectors. P3 projects are expected to play a significant role in contributing to the efficient and timely completion of major infrastructure projects.

Framework - Funding of the Capital Plan

The new fiscal framework provides additional options for funding capital projects. Previously all capital spending was on a pay-as-you-go basis, and the cost of capital projects was charged to the government's bottom line as projects were constructed. Under the new capital plan, alternative funding will be used. This could include, for example, P3s, capital leases, capital bonds and other borrowing.

An Advisory Committee on Alternative Capital Financing was announced on May 21, 2003. The Committee's role is to:

- Provide recommendations to Treasury Board regarding guidelines for alternative funding of capital projects.

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[1] Source: The Canadian Council for Public-Private Partnerships

[2] "Moving from Good to Great – Enhancing Alberta's Fiscal Framework" – Alberta Government, July 8, 2002

- Evaluate capital projects and supporting business cases and make recommendations to Treasury Board.
- Provide support to Ministries on the advantages and limitations of alternative funding and the relationship to the delivery of the government's multi-year capital plan.
- Maintain an ongoing overview of public policy developments both nationally and internationally concerning the various funding approaches supporting public infrastructure development.

The Committee consists of private sector individuals with expertise in areas such as finance and investment management, real estate development and commercial law.

Alternative financing may be used both for government-owned capital projects and for government-supported projects owned by school boards, health authorities and post-secondary institutions (Supported Infrastructure Organizations, or SIOs).

Context

Traditional Model

In the past, Alberta Infrastructure has used the traditional model of project delivery to develop priority infrastructure projects for government-supported and government-owned infrastructure. In this model, the government generally funds 100% of the facility either by providing a capital grant to the SIO (partial funding of post-secondary institutions) or by building its own facility. In-house project management teams may be used to manage the processes. The design/bid/build procedure is used to tender and build the project. This traditional approach involves extensive work before the project is approved and funded. Rigid sets of guidelines and procedures are used throughout the three-stage process of planning, design and implementation.

These established procedures ensure that only needed projects are allowed to proceed and that all accountability issues are dealt with. However, this method does not allow flexibility or innovation, and it is also time consuming. Often, extensive planning work is completed and the project is supported, but it cannot go ahead because funding is not available. When capital funding is available, the traditional method works well. However, it has become evident that much-needed projects are long overdue because of the lack of available capital funding.

P3 Model

To reduce the backlog of needed infrastructure projects, Alberta Infrastructure is promoting the P3 model of project delivery. This process looks to the private sector to come up with innovative solutions and financing to respond to demonstrated needs.

The P3 delivery model is selected before the project is defined. That is, the need for the project is established at the outset; and then the private sector is asked to provide input, including innovative solutions.

The P3 delivery model is not a new concept for Alberta Infrastructure. A number of P3 projects (such as the Research Council Facility in Calgary) have proceeded successfully. These experiences show that this model enables more projects to proceed in a timely manner and with considerably less capital funding required from the government.

However, not all projects are suitable for the P3 model. The criteria and procedures for identifying and delivering suitable P3 projects are set out in this document to ensure that only suitable projects are selected for this process.

Capital Planning Initiative

The annual cross-government capital planning process is managed by the Capital Planning Initiative (CPI) Committee. CPI is now developing mechanisms to promote and support government capital needs, including P3 initiatives.

- Project funding approval procedures will be adjusted to allow P3 opportunities to be identified at an early stage, before extensive planning work is done.
- In the past, the annual cross-government review process resulted in a list of priority projects that could be completed within the boundaries of available capital funding from government sources. Now CPI will look at what can be accomplished with the available capital funding from government sources over a long period of time in combination with the private sector's financial contribution described in P3 proposals. This could include repayment in future years over the life of the project.
- CPI will recommend a list of prioritized projects that should proceed, and will also recommend whether they should proceed under the traditional or the P3 model.
- CPI will use a long-view approach in assessing projects, taking into consideration the length of time required to implement them.

Procedures

The procedures described in this guidance document are intended to help SIOs and private sector enterprises to explore the possibility of setting up P3s related to building projects under the mandate of Alberta Infrastructure. Such partnerships would respond to the infrastructure needs of SIOs and related government ministries. The goal of these partnerships is to better serve Alberta communities.

P3 procedures are designed to enable efficient and timely consideration of P3 proposals by the Ministry. They are flexible enough to allow innovation, while ensuring that only needed projects are undertaken.

Both solicited and unsolicited P3 initiatives will be considered. This will allow innovative proposals to be brought forward and assessed.

There are two phases to the assessment process. The first phase is the preparation of an Opportunity Paper by the proponents, so that the project can be reviewed by Alberta Infrastructure's P3 Review Committee (P3RC) and CPI before extensive work has been done. P3RC will assess the Opportunity Paper and determine if the project should be pursued according to the guidelines in Section 3.

Projects may move on to the second stage if Alberta Infrastructure deems them feasible and supportable. The second phase requires more detailed information, in the form of a business case, to be prepared by the proponents. If the P3 is a solicited proposal (one that has been requested by Infrastructure) the private sector will be invited to participate in a competitive process, and offer innovative solutions to address the needs described in the Opportunity Paper and the business case.

Appropriate policies and guidelines will be in place to ensure that the P3 process is effective, and only needed projects proceed. The procedures will be fair and transparent.

Related Ministries' and Stakeholders' Involvement

Related ministries (such as Learning, and Health and Wellness) will remain key players in assessing all projects that address their specific program. The SIOs and related ministries will work closely with the line areas of Alberta Infrastructure to ensure that projects meet the requirements of the program being addressed.

Supported Infrastructure Organizations' Capital Plans

Alberta Infrastructure has asked the SIOs to prepare long-term five-year capital plans to identify, justify and prioritize needed major capital. These needs will be prioritized in the long-term capital plans of SIOs and in ministries' long-term capital plans for owned infrastructure. These long-term capital plans will be critical tools for identifying, prioritizing and evaluating P3 proposals.

Acknowledgements

1. Information Bulletin, Information on Public-Private Partnerships, Alberta Government, Infrastructure, January 2003
2. Industry Canada, Public-Private Partnership: A Canadian Guide, June 2001
3. Partnerships Victoria, State of Victoria (Australia), Department of Treasury & Finance, March 2001
4. Department of the Environment and Local Government, Public Private Partnership Assessment, Ireland, April 2000
5. Alternative Procurement Implementation Guide, Capital Division, Treasury Board Staff, and Ministry of Finance and Corporate Relations, January 2000
6. Province of British Columbia, Public Private Partnership, A Guide for Local Government, May 1999.

Policy on Public-Private Partnerships for Building Infrastructure

Policy

Alberta Infrastructure will accept for review and analysis any proposals from SIOs, other government departments and private industry to undertake P3 arrangements for capital projects for building infrastructure to be owned by Alberta Infrastructure (AI) or supported by AI's capital funding programs.

Objectives

The Ministry's primary objectives in supporting the development of P3s for building infrastructure are:

- To find innovative ways of effectively and efficiently addressing the priority building infrastructure needs of schools, health facilities, post-secondary institutions and government facilities in Alberta communities;
- To increase the level of infrastructure investment, through responsible use of resources from both the public and private sectors, in order to support Alberta's growth and economic development and the resulting requirement for capital investment in schools, health facilities, post-secondary institutions and government facilities;
- To maximize value for money for government expenditures by engaging private sector expertise and financing in order to reduce government's initial investment in infrastructure;
- To improve efficiency in using public sector resources by working with the private sector to develop synergies, taking advantage of opportunities for integrating government-owned and government-supported facilities with privately-owned infrastructure, and encouraging innovation in the delivery of infrastructure;
- To ensure that P3 arrangements entered into by the SIOs and government departments:
    a) provide a net benefit to the Alberta taxpayer;
    b) are appropriate for the Alberta community for which they are proposed; and
    c) are developed for the betterment of these communities;
- To provide economic incentives to the private sector through long-term revenue stabilization, where appropriate, in order to provide for the ongoing infrastructure needs of Albertans and enhance economic development in Alberta; and
- To pursue partnerships in which project risks related to design, construction, and demand are appropriately allocated between public and private sector partners.

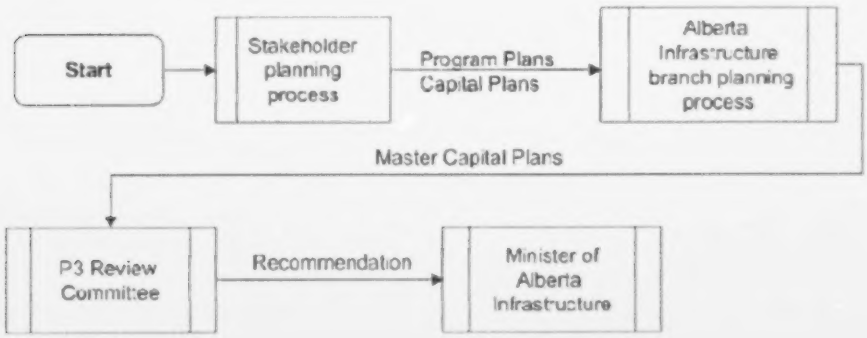
Guiding Principles for Assessing Public-Private Partnerships for Building Infrastructure

The following principles will guide the Ministry in reviewing and assessing P3 opportunities for building infrastructure.

- The need for the project must be clearly demonstrated and must reflect government priorities.
- The project must be clearly defined and based upon a sound business case, including an analysis of both operating and capital costs.
- P3 arrangements for capital infrastructure investment must clearly show how risks are shared between the project proponent and the SIO or the Ministry.
- A P3 must offer a solution that provides the best value for money, based on careful consideration of alternative methods of delivering the infrastructure project.
- Fair, transparent and accountable procedures will be followed during the P3 review and selection process in order to protect the public interest.
- Both solicited and unsolicited proposals will be accepted for review. The review will ensure that each proposed P3 project selected and recommended for government approval provides best value for money.
- Before being recommended for government approval, all proposals will require the support of the appropriate SIO and related government departments.
- All P3 projects must comply with applicable legislative requirements regarding financing, building codes and environmental regulations, and other policy or regulatory requirements as determined by Alberta Infrastructure.
- Once it has received the appropriate approvals as outlined in this Guidance Document, the Ministry or an SIO that wishes to implement a P3 project may issue a Request for Expressions of Interest, followed by a Request for Qualifications and a Request for Proposals.
- Acceptance and approval of a business case does not necessarily mean that Alberta Infrastructure will approve the proposal.
- A commitment of funding from Alberta Infrastructure must be confirmed in writing before any P3 building proposal may proceed to construction.

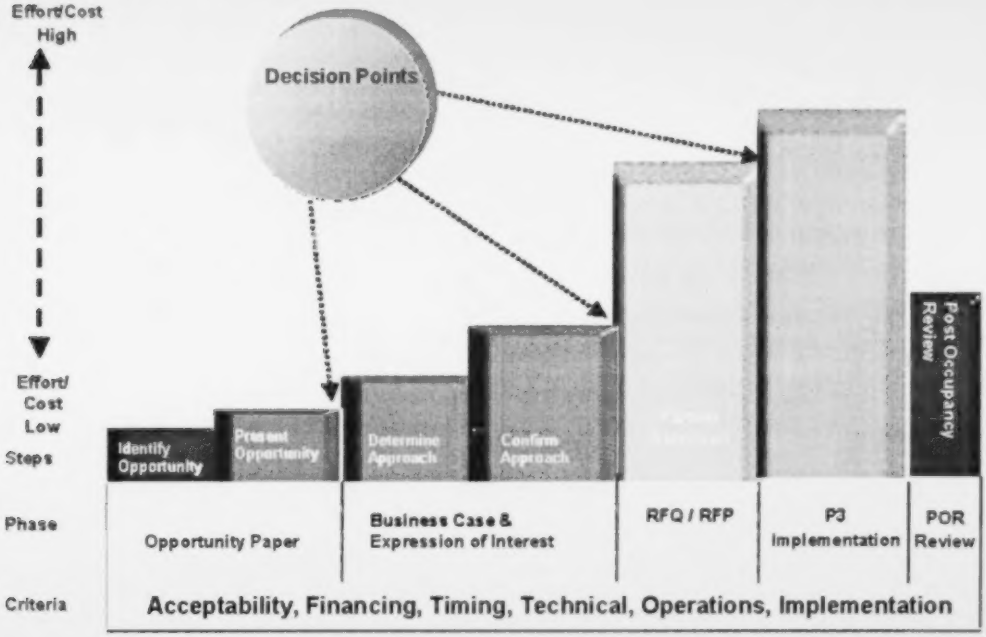
High-Level P3 Capital Project Assessment Process

High-Level Capital Project Process

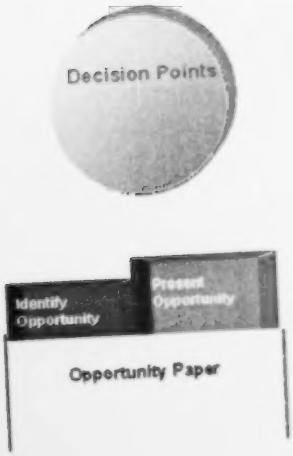


Process for review and consideration of projects at government level (Treasury Board, Advisory Committee on Alternative Financing) is under consideration.

P3 Project Life Cycle



Opportunity Paper



The Opportunity Paper establishes that a proposed P3 project meets the fundamental criteria for a P3 project. This ensures the project is within the overall policy and meets P3 objectives, business guidelines and the program priority needs – both current and long term.

This preliminary analysis provides evidence that the project has sufficient potential to provide value for money when compared to a traditional procurement process.

The decision to move to the next stage is based on a high-level assessment of the ability of the project to meet government program delivery needs.

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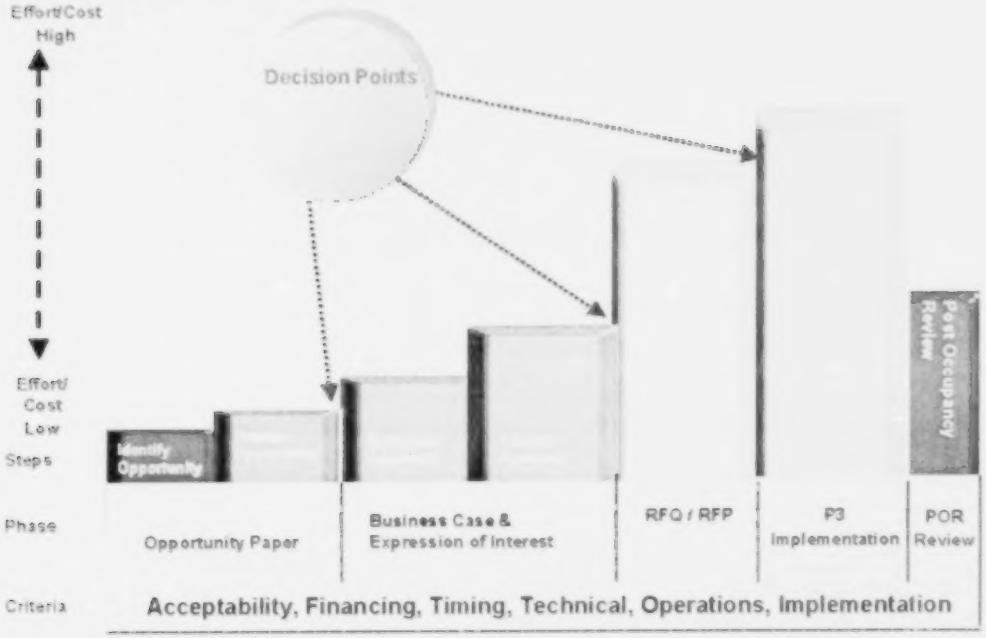

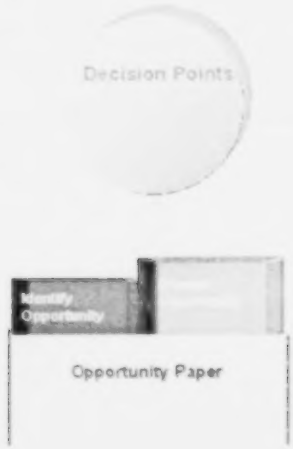

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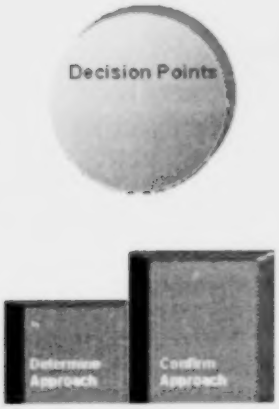

Business Case & Expression of Interest

Business Case and Expression of Interest

This phase provides more detailed information. It establishes that the P3 approach is preferable to other available alternatives. Often, an Expression of Interest is used to confirm sufficient private sector interest.

The decision to move to the next phase is based on an assessment of the business case. Analysis of the proposed P3 model compared to traditional procurement is performed to clearly demonstrate the value for money and sharing of risk in the areas of financing, program delivery and infrastructure. Depending on the project's size, complexity and financial commitment, the business case may be assessed by a number of areas within the government.

Partner Selection

Proposals are requested from the private sector based on a Request for Qualification (RFQ) and Request for Proposal (RFP). Proposals are assessed based on their ability to meet detailed program and infrastructure requirements.

P3 Implementation

This phase involves the establishment of the partnership agreement between the SIO and the successful private sector proponent.

The intent of the contract is to create a long-term relationship for the mutual benefit of each party. The contract must be performance-based and clearly establish terms, expectations, and costs for each party. The contract should be flexible to promote innovation and include a risk management plan. Once a contract is in place, a formal implementation team is established and a detailed project plan that reflects the priorities of the project is developed and approved.

Care should be taken to make sure that the information contained in the business case is reflected in the contractual relationship.

Post-Occupancy Review

The post-occupancy or post-construction review phase involves ongoing performance reviews of the established partnership agreement, the procedures involved, and the overall success of the project .

The review uses the business case as a benchmark to assess that the terms and costs are as expected. It recommends any changes to the partnership that maximize the success of the partnership.

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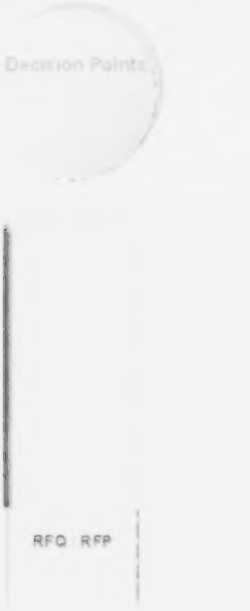

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High-Level Summary of Roles and Responsibilities

The following provides a high-level summary of the roles and responsibilities of the various parties that would be involved in the development, review, approval and implementation of public-private partnerships for facilities owned or supported by Alberta Infrastructure.

Private Sector Organizations

- Respond to Expressions of Interest (EOI), Request for Qualifications (RFQ) or Requests for Proposal (RFP) issued by Ministry or SIOs and assist in developing concepts for P3 opportunities, OR prepare unsolicited proposals in the form of an Opportunity Paper for review and consideration by AI/SIOs.
- For unsolicited proposals, seek support and guidance from SIOs and ministry as required.
- Provide assistance to SIOs or Alberta Infrastructure to support the development of a business case as requested.

Supported Infrastructure Organizations

- Develop concepts for P3 opportunities and review with Alberta Infrastructure's line area representatives.
- Prepare opportunity papers to support all preliminary proposals for review by Alberta Infrastructure.
- Prepare business case submissions for review by Alberta Infrastructure.
- Obtain approvals at local level (permits, permissions, board motions).
- Respond to public on local issues.
- Obtain and manage other funding (such as foundation funding for post-secondary institutions) as appropriate.
- Implement project – issue tenders, manage contracts, etc.
- Report to Alberta Infrastructure on project status.
- Participate in post-occupancy review.

Alberta Infrastructure - Line Areas

- Promote P3s to SIOs and industry using the Ministry P3 Guiding Principles.
- Review preliminary concepts/ideas for all P3s to determine if concepts are viable.
- Forward proposals with recommendation to the P3RC for review.
- Respond to SIO's proposal according to P3RC's decision.
- Advise SIO throughout the process.
- Ensure all parties involved with project are kept apprised of project details and status.
- Accept business cases from SIOs, submit them to P3RC, and keep SIOs informed on project status.

- Work with SIOs to implement project upon approval.
- Establish P3 technical standards as appropriate for each type of facility.

Public-Private Partnership Review Committee (P3RC) – Alberta Infrastructure

- Develops Alberta Infrastructure (AI) policy on P3 projects.
- Develops P3 guiding principles that AI will follow when considering supporting a P3 project.
- Develops an internal review process for P3s.
- Delivers a communication plan to ensure awareness of policy, principles and processes.
- Reviews P3 submissions (Opportunity Papers and business cases) and submits viable P3 opportunities to the Minister of Infrastructure.
- Tracks P3 projects and advises AI line areas of status of projects.
- Reports on implementation of P3 projects monthly to the Minister.
- Reviews P3 project post-implementation assessments.

Capital Planning Initiative Committee – Cross Government

- Develops mechanisms to promote and support government capital needs including P3 initiatives.
- Reviews all capital project priorities according to the government's capital plan.
- Recommends specific projects to Treasury Board.

Advisory Committee on Alternative Capital Financing - External

- Provides recommendations to Treasury Board regarding guidelines for alternative funding of capital projects.
- Evaluates capital projects and supporting business cases and make recommendations to Treasury Board.
- Provides support to Ministries on the advantages and limitations of alternative funding and the relationship to the delivery of the government's multi-year capital plan.
- Maintains an ongoing overview of public policy developments both nationally and internationally concerning the various funding approaches supporting public infrastructure development.

Frequently Asked Questions (FAQs)

What is a P3?

A P3 is a Public-Private Partnership. This is defined as a cooperative venture between the public and private sectors, built on the expertise of each partner, that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards.

Why is government looking at P3s?

The Financial Management Commission[1] recommended that government and Supported Infrastructure Organizations (school boards, health authorities and post-secondary institution boards) should be allowed to enter into alternative funding arrangements for capital projects, under specific conditions and with appropriate guidelines. Government approved this recommendation.

Recommendations to prepare three- to five-year capital plans, infrastructure plans, and business cases for capital projects were also approved. These recommendations provide the framework for Alberta to implement Public-Private Partnerships as an alternative approach to financing and developing capital projects.

How does government benefit?

P3s allow the government to share the rewards, risks and opportunities of projects with the private sector. Instead of paying the full capital cost of infrastructure upfront, P3 arrangements allow the government to spread the cost of a project over a longer time period.

Other rewards could include:

- Lower lease rates if government is the anchor tenant in a P3 facility;
- Private investment at the outset lowers the amount government has to pay upfront;
- Projects may be built sooner rather than later, giving Albertans earlier access to facilities;
- Sharing operating efficiencies could also lead to lower government and SIO cost throughout the term of the agreement; and
- Government and SIOs may reduce or eliminate financial risk of owning and maintaining the building.

Potential P3 projects in Alberta will be fully evaluated through business case analysis, and will only be pursued if the P3 alternative can demonstrate a net benefit to taxpayers.

[1] "Moving from Good to Great – Enhancing Alberta's Fiscal Framework" – Alberta Government, July 8, 2002

How does the private sector benefit?

The private sector benefits through the new business options and opportunities that are available to them. P3s open the door for groups that want to make long-term secure investments that can be backed by the government's financial stability.

What are the risks?

Some P3 risks that have been identified include:

- financial risk – that the private sector overstresses a project through inappropriate financial structuring
- environmental risk – that the project could have an adverse environmental impact not foreseen in the environmental impact assessment, which has an unforeseen effect on project costs
- performance risk – that the operator will not perform to the specified service level.

More details on risk can be found in Section 10.

How will public communications be handled?

All public communications - news conferences, news releases, newspapers advertisements, etc. - undertaken by the proponents must be developed in cooperation with Alberta Infrastructure Communications. For further information, please contact Martin Dupuis at 780-427-1938 - martin.dupuis@gov.ab.ca.

How is the confidentiality of the information provided by the proponents to Alberta Infrastructure protected?

All information provided to Alberta Infrastructure by the proponent is subject to the Freedom of Information and Protection of Privacy Act (FOIP). Proponents should ensure that their submissions are marked *Confidential*. For further information, please contact Roberta Killips, Director of Policy and Planning, Alberta Infrastructure at 780-415-0678 roberta.killips@gov.ab.ca.

How can I find out more?

Contact the related line area within Alberta Infrastructure for further information or questions about undertaking a P3 project:

John Bennett	Executive Director	Health Facility Projects Branch 780-422-7537 john.bennett@gov.ab.ca
Barry Day	Executive Director	Learning Facilities Branch 780-422-7224 barry.day@gov.ab.ca
Fred Trotter	Director	Post-Secondary Institutions Branch 780-422-4756 fred.trotter@gov.ab.ca
Diane Dalgleish	Executive Director	Property Development Branch 780-422-0770 diane.dalgleish@gov.ab.ca

Phase One - Opportunity Paper Assessment Procedure

Public-Private Partnership (P3) projects can be complex and extensive. A clear understanding of the scope of the project and the roles and responsibilities of the partners must be established. Therefore, P3 initiatives will be processed through a two-phase review procedure. In Phase One, Alberta Infrastructure (AI) assesses the potential of a P3 initiative and informs the proponent if AI is interested in exploring the project further.

Solicited proposal

An SIO or ministry provides an Opportunity Paper (see template at end of this section) for initial assessment of the potential P3 project by AI. This will avoid work and money being invested in a detailed business case where there might not be AI interest in the project.

The Opportunity Paper outlines the proposed project concepts and high-level benefits.

Solicited Proposal
Proposal for a specific project that has been requested by AI or an SIO. (This could be for a supported and funded project - or it could be for a high priority project that has not yet received a funding commitment).

Unsolicited proposal

Although solicited proposals are preferred, the Opportunity Paper Assessment Procedure will also be used for unsolicited proposals to allow unique and innovative concepts to be assessed, and implemented if approved. An assessment procedure is in place for both solicited and unsolicited proposals to ensure that best value for money is achieved in each proposed P3 project selected and recommended for government approval.

Unsolicited Proposal
Proposal for a specific project that has not been requested by AI or an SIO.

High-Level Assessment Procedure

1. The line area in collaboration with the related ministries (Learning, Health & Wellness and/or others) will review the Opportunity Paper for either a solicited or an unsolicited proposal to confirm its alignment with the policy and guiding principles contained in this document. The line areas will forward the submission with their recommendations to the P3 Review Committee (P3RC) for review.
2. P3RC will assess the submission against pre-established criteria (see page 8), the provincial objectives for P3 projects, and the strength of the submission in the required categories.
3. P3RC will decide if the submission has merit and is feasible.
4. P3RC will then forward a submission with its recommendations based on the merits of the proposal to the Minister of Alberta Infrastructure. If the Minister supports the proposal it will be submitted through the government review process (yet to be determined).
5. Following the government's review of the proposal, P3RC will advise the proponent of the outcome.

Further Guidance for Unsolicited Proposals

Before an unsolicited proposal goes through the high-level assessment process:

- the proponent or the Ministry (if it wishes to sponsor the proposal) must ensure that support is received from any SIO involved, and
- where the SIO determines that an unsolicited proposal has merit and wishes to support it, the SIO must "sponsor" the proposal and advise the Ministry of its support.

The Ministry and the Government will determine whether the proposal will result in value for money, and that the level of value for money could not reasonably be expected to be matched or improved on by another proponent, then scrutinizes unsolicited proposals that appear to be feasible.

For an unsolicited proposal, the P3RC will also determine:

- whether the proposal is in the public interest, based on the evaluation of such factors as the proponent's qualifications, feasibility of the project and value for money, and that the project meets government's priority needs; and
- whether another proponent is interested in entering in a competitive process to provide the same service/or facility. To do so, the Ministry can issue a request for Expressions of Interest EOI). If this approach is used, the proposal call will be sufficiently general to protect the initial proponent's proprietary information.

Following High Level Assessment – Unsolicited Proposals

- If after review by the line areas and P3RC, the proposal is deemed to be feasible and supportable, and that the level of value for money achieved could not reasonably be expected to be matched or improved by another proponent; then the proposal will be forwarded to the Minister for consideration.

  If the proposal is supported, the SIO/proponent will be advised to proceed to Phase Two and to provide a full P3 business case analysis. The line areas will inform the SIO of the status of the proposal.

- If the proposal is deemed to be feasible and supportable but a competitive process should be used to confirm if the level of value for money could be matched or improved by another proponent; then an EOI will be released by the SIO. If this approach is used, the proposal call will be sufficiently general to protect the initial proponent's proprietary information.

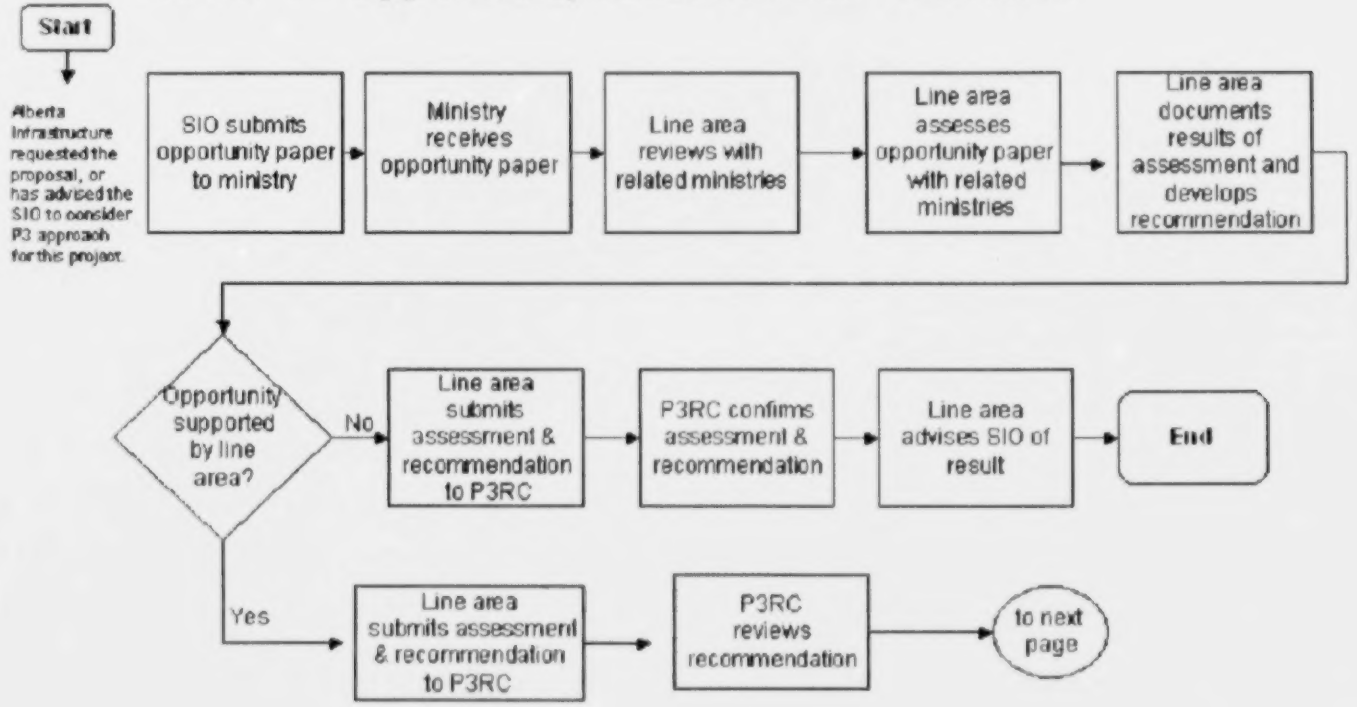
  If no other proponent expresses interest, then the SIO/proponent will be advised to proceed to Phase Two and to provide a full P3 business case analysis.

  If other proponents express interest, then the P3RC will forward the proposal to Minister of Infrastructure for consideration, stating that the proposal is supported and recommending that a competitive process should take place. If the proposal is supported, the SIO/ proponent will be advised that a competitive process should take place in the form of a solicited proposal process.

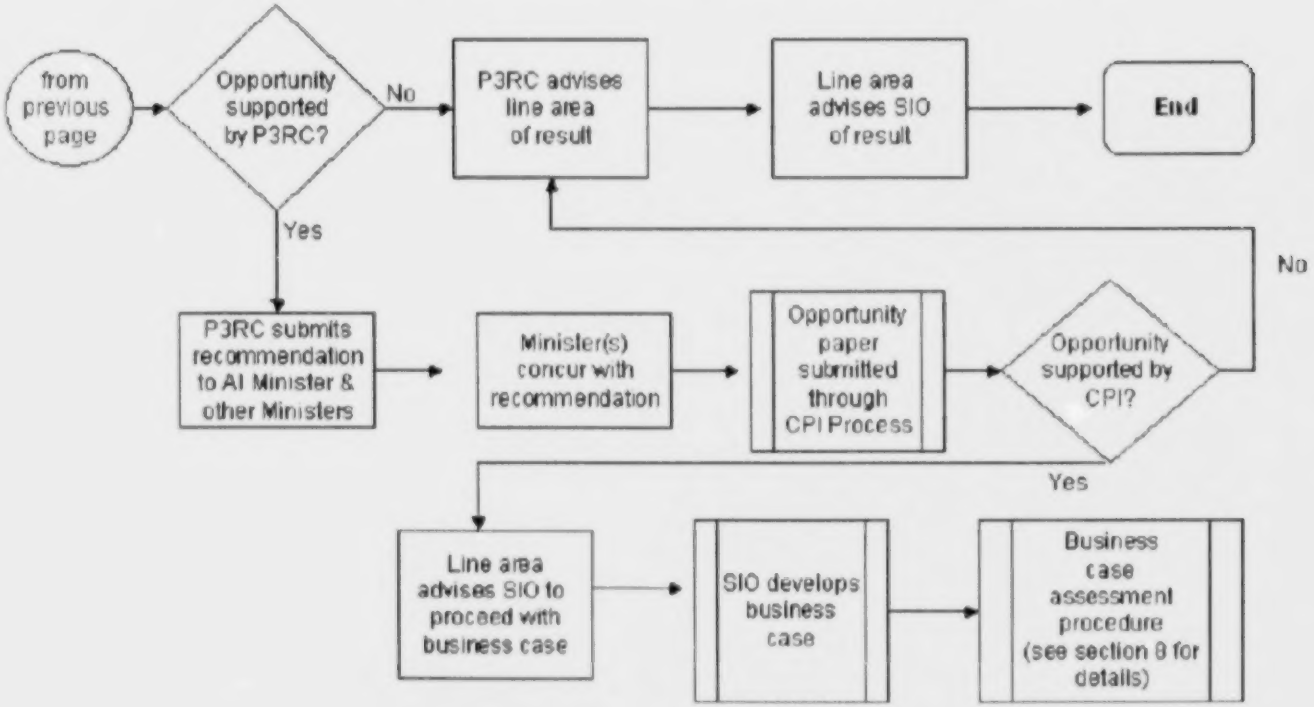
If the Minister does not support the proposal, the SIO/proponent will be advised of the decision and the reasons for it.

- If after review by the line areas and the P3RC, the proposal is not deemed feasible and supportable, the P3RC will inform stakeholders that either the proposal does not meet established criteria (with reasons) or that additional information is required for analysis, and what is required.

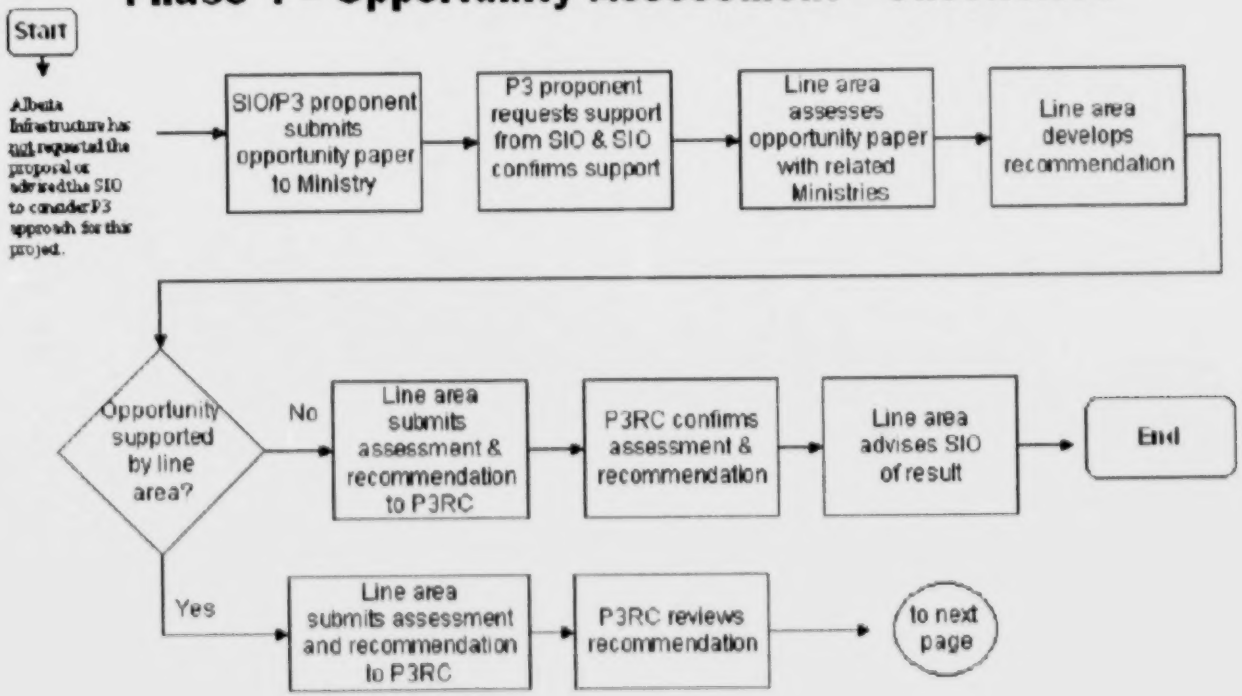
Phase 1 – Opportunity Assessment - Solicited


Start
Alberta Infrastructure requested the proposal, or has advised the SIO to consider P3 approach for this project.
SIO submits opportunity paper to ministry
Ministry receives opportunity paper
Line area reviews with related ministries
Line area assesses opportunity paper with related ministries
Line area documents results of assessment and develops recommendation
Opportunity supported by line area?
No
Line area submits assessment & recommendation to P3RC
P3RC confirms assessment & recommendation
Line area advises SIO of result
End
Yes
Line area submits assessment & recommendation to P3RC
P3RC reviews recommendation
to next page

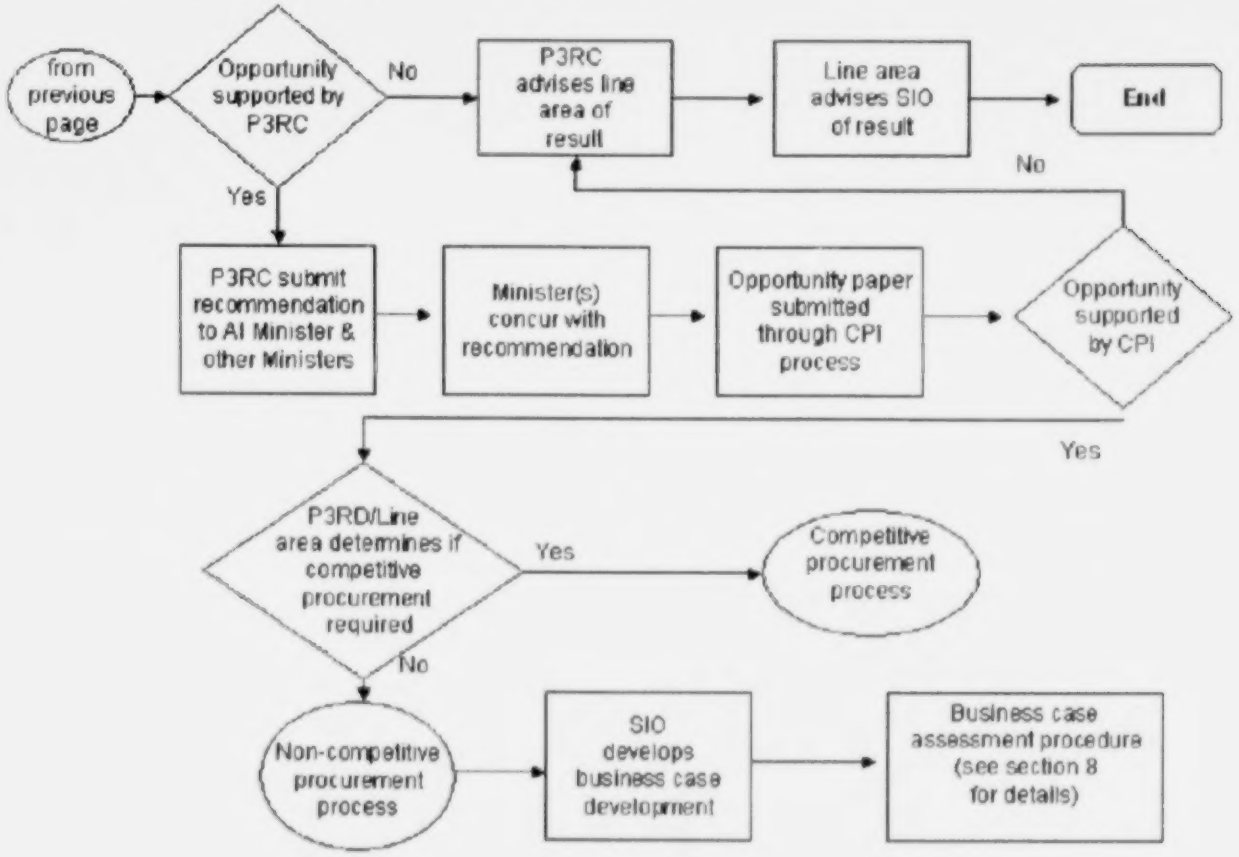
Phase 1 – Opportunity Assessment - Solicited


from previous page
Opportunity supported by P3RC?
No
P3RC advises line area of result
Line area advises SIO of result
End
Yes
No
P3RC submits recommendation to AI Minister & other Ministers
Minister(s) concur with recommendation
Opportunity paper submitted through CPI Process
Opportunity supported by CPI?
Yes
Line area advises SIO to proceed with business case
SIO develops business case
Business case assessment procedure (see section 8 for details)

Phase 1 – Opportunity Assessment - Unsolicited


Start
Alberta Infrastructure has not requested the proposal or advised the SIO to consider P3 approach for the project.
SIO/P3 proponent submits opportunity paper to Ministry
P3 proponent requests support from SIO & SIO confirms support
Line area assesses opportunity paper with related Ministries
Line area develops recommendation
Opportunity supported by line area?
No
Line area submits assessment & recommendation to P3RC
P3RC confirms assessment & recommendation
Line area advises SIO of result
End
Yes
Line area submits assessment and recommendation to P3RC
P3RC reviews recommendation
to next page

Phase 1 – Opportunity Assessment - Unsolicited



Criteria for Assessment of an Opportunity Paper

If the answer to a question below is "yes" indicate whether to a high (1), medium (2) or low (3) extent.

Business and Operational Impact

Criteria	Yes (1, 2, 3)	No	N/A	Opportunity Paper reference / Notes
Does the project support economic development/ growth and enhance the quality of life?				
Does the project encourage innovation through market competition in infrastructure delivery and operations?				
Have other procurement approaches been considered and the P3 has been determined to be the most effective procurement approach?				
Does the project address an immediate priority need?				
Does the project provide an opportunity to implement a longer-term priority immediately?				
Does the project ensure responsible use of resources?				
Is the proposed method of remuneration for the services to be performed suitable to the SIO or ministry?				
Does the proposal demonstrate innovation and creativity?				
Does the proposal align remuneration with project outcomes?				
Does the proposal improve the delivery of program space?				
Overall Business and Operational Impact Assessment				

Business Alignment

Criteria	Yes (1, 2, 3)	No	N/A	Opportunity Paper reference / Notes
Does the proponent's business proposition align with the SIO/ministry's priorities, missions, and visions as identified in their Business Plans?				
Are the strategies and methods proposed acceptable and suitable to the SIO/ministry?				
Does the SIO/ministry have confidence that a suitable proponent can deliver excellent results and fulfill the role of an effective partner?				
Does the SIO/ministry consider that the proponent has suitable potential in a partnership, including an appropriate risk/reward proposition?				
Overall Business Alignment Assessment				

Project Risk Assessment

Criteria	Yes (1, 2, 3)	No	N/A	Opportunity Paper reference / Notes
Does the proponent have experience in the delivery of P3 initiatives of comparable complexity and scope to the project being contemplated?				
Does the proponent have prior experience in P3, joint ventures and/or other strategic alliances of significance?				
Has the proponent completed previous initiatives for health care, school facilities, post-secondary facilities, etc.?				
Does the proponent have a record of delivering projects on time and within budget and of successfully enhancing enterprise performance?				
Does the proponent have other key strengths or value-adds to bring to the SIO/ministry's line of business?				
Do the proponent's resources have appropriate skills and competencies for the project?				
Does the proponent's team have sufficient depth and bench strength as it relates to the program area focus?				
Does the proponent's project leader have appropriate experience and expertise, especially with P3 projects?				
Are the proponent's key team members available to respond to the Client Group's requirements?				

Criteria	Yes (1, 2, 3)	No	N/A	Opportunity Paper reference / Notes
Is sufficient information on the proponent's team provided so that the SIO/ministry is assured the proponent can deliver an outstanding result?				
Does the proposal provide an opportunity to share risks between the government and private sector?				
Does the project foresee any regulatory or zoning issues that may impact the viability of the project?				
Overall Project Risk Assessment				

Cost/Benefit Analysis – Financial

Criteria	Yes (1, 2, 3)	No	N/A	Opportunity Paper reference / Notes
Is there sufficient preliminary information to justify the development of a business case that will likely be able to show value for money?				
Has an assumption-based financial model of how the P3 would proceed been included?				
Would that financial model likely be feasible and acceptable to the Ministry/government?				
Overall Cost/Benefit Analysis - Financial Assessment				

P3RC Recommendation:

(Summarize the recommendation)

Alberta Infrastructure

Public-Private Partnership (P3) Opportunity Paper Template

NOTE TO READER:

This document is to be used to submit preliminary P3 project proposals and is the first of several steps required to obtain project approval.

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Project Description 2
Strategic Alignment 2
Business & Operational Impact 2
Allocation of Risk 3
Preliminary Cost/Benefit Benchmark 3
Project Team 4
Conclusion & Recommendation 4

Section 1 Project Description

[Project Name]

Provide a brief description of the project including:

a) a clear definition of the problem or opportunity it will address;
b) an outline of the program and infrastructure objectives of the project;
c) identifying potential partnership opportunities that may exist;
d) any preliminary indication of the private sector's level of interest in participating in the proposed project;
e) details of the resources that potential partners could bring to the project; and
f) an indication of the expected level of contribution that is required from the SIO and/or the government (if any).

Section 2 Strategic Alignment

Describe how the project aligns with the Supported Infrastructure Organization / ministry and government strategic directions. Outline why undertaking a P3 approach will further support the strategic alignment.

Section 3 Business & Operational Impact

Identify any unique opportunities that the P3 approach will provide under the following headings:

a) Project Management Plan
b) Design and Construction Plan – schedules, construction management, fast track, design/bid/build, etc.
c) Ownership Arrangements
d) Operation and Maintenance
e) Program Delivery

Section 4

Allocation of Risk

The allocation of risk is an important element in a P3 project and it should be considered early in its development. Provide a preliminary risk allocation plan for the project. Identify where the P3 approach will provide opportunities for sharing risks throughout the various stages of the project. These risks may relate to infrastructure and program delivery.

Note: It is understood that this plan will likely be revised at a later stage when the contractor, developer, construction manager, and others join the project team.

Section 5

Preliminary Cost/Benefit Benchmark

A Benchmark Cost Estimate – Public Sector Comparator

Prepare a cost estimate based on the assumption that the project is carried out by the *traditional methods* (see section 1 of guidance document) of providing the proposed facilities and program delivery. This estimate will form a benchmark against which the P3 proposal will be evaluated, to determine a) cost savings, b) improved efficiency, c) improved quality of service, d) timeline for implementation, and e) innovations.

Identify opportunities where the P3 approach may result in achieving a) – e) above.

Assumptions around preliminary schematic architectural planning work and financial projections will be required to complete this cost estimate. These assumptions will be further refined in the business case.

Preliminary P3 Financial Model

Provide a preliminary P3 financial model for the project. Be sure to identify the sources and degree of capital and operating funding that may be required from various funding sources, including the government.

Section 6 Project Team

Provide information on the qualifications, experience, and capabilities of the current membership of the project planning team, indicating their roles and responsibilities. Also indicate the future management structure of the project team assuming the project is approved to proceed.

Note: This information might not be available at this stage for some of the proposals. Provide information on any potential identified participants.

Section 7 Conclusion & Recommendation

Provide a conclusion as to why undertaking the project as a P3 will result in the most effective and efficient approach to achieving the project's objectives in both a program delivery and infrastructure view.

Identify any specific recommendations that are required to move the project forward.

Phase Two – Business Case Assessment Procedure

Following review of the Opportunity Paper (Phase One), Alberta Infrastructure will inform the SIO or P3 proponent if the P3 proposal is supported and whether to develop a detailed business case (Phase Two). The SIO or Ministry may issue a Request for Expressions of Interest, followed by a Request for Qualifications and a Request for Proposals.

All P3 initiatives allowed to proceed to Phase Two must be supported by a business case analysis that clearly defines the project, benefits, business and operational impacts, cost benefit analysis, risk assessment, and implementation strategy, using the government's standard business case template. A P3 business case supplement issued by Alberta Infrastructure provides specific P3 information required in the business case. A business case template can be found at the end of this section.

Assessment Procedure

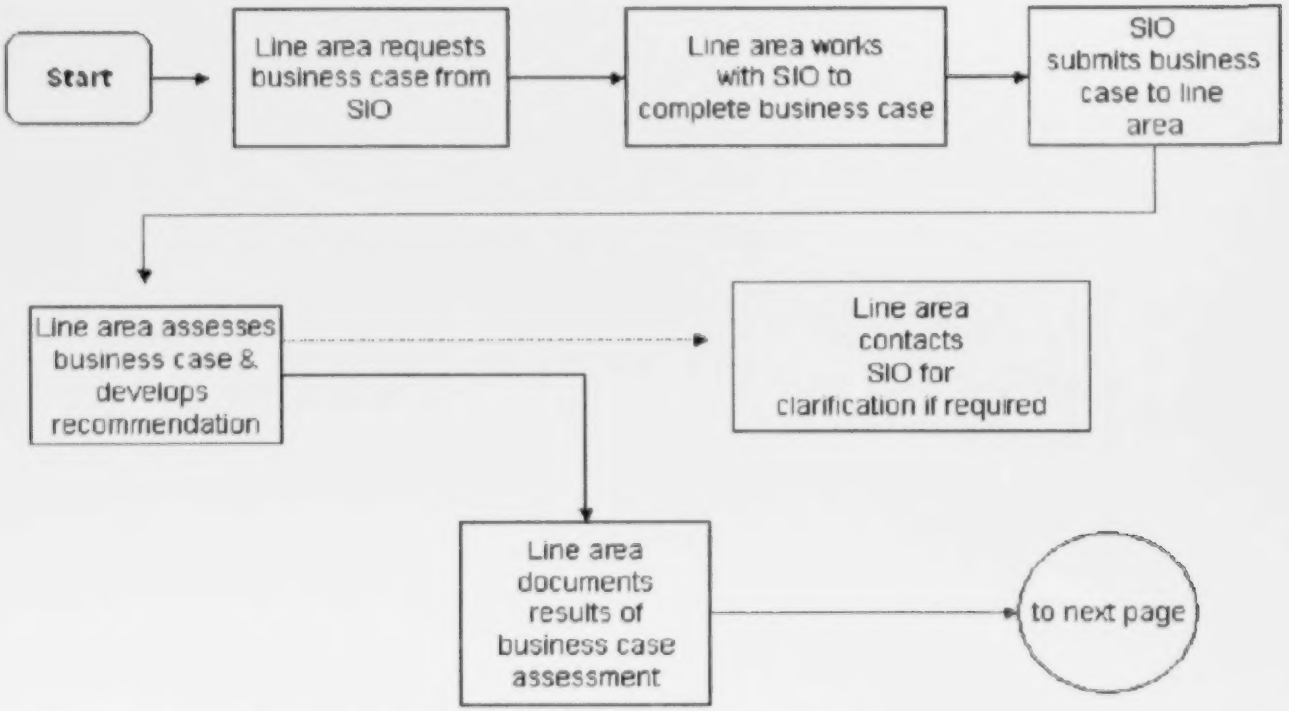
The P3RC will review the submitted P3 business case according to pre-established criteria (list follows) following preliminary analysis by the line area with appropriate input from related Ministries. The P3RC will inform the SIO that:

- the business case does not meet established criteria and why it fails; or
- the business case requires additional information for analysis and what is required; or
- the business case is acceptable and will be forwarded to Minister.

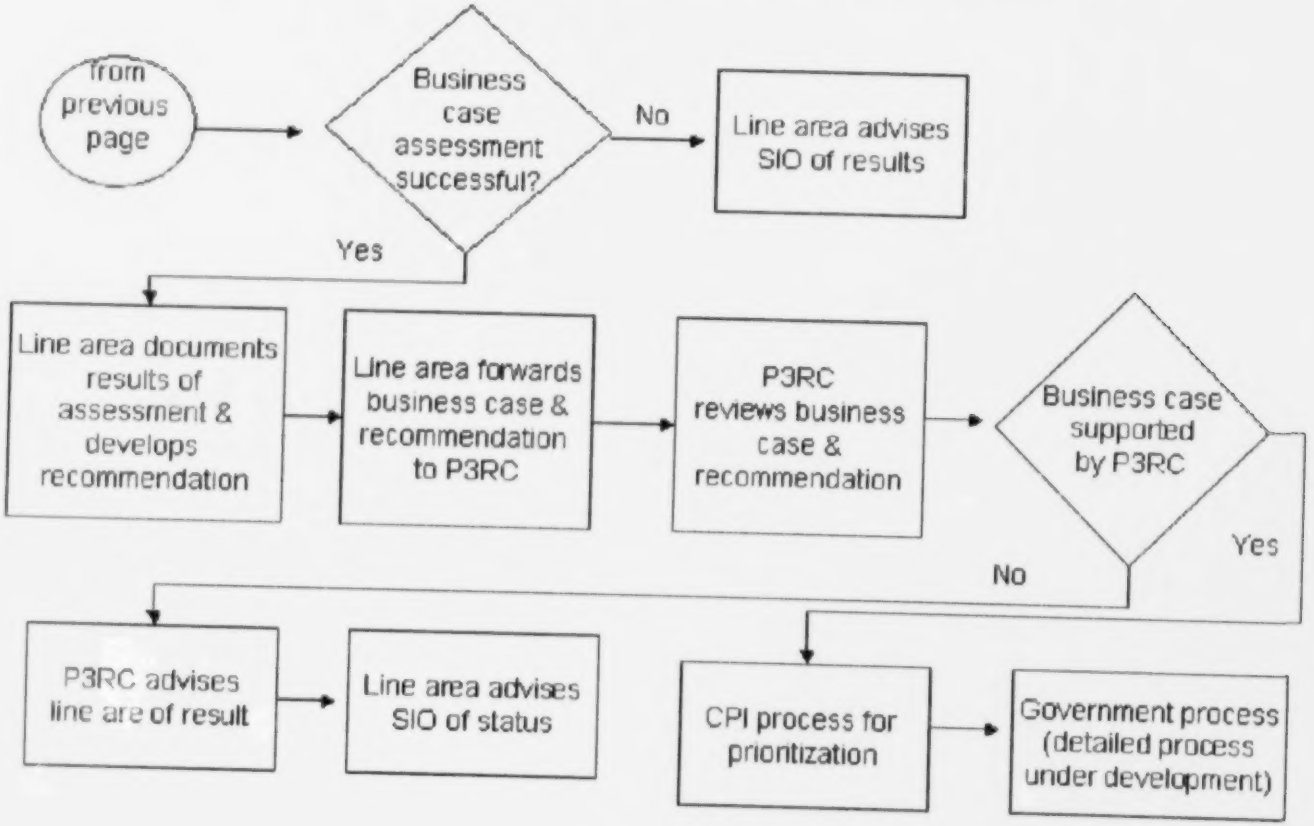
The P3RC will advise the Minister of the results and recommendations for all P3 business cases. Recommendation will flow through Alberta Infrastructure to CPI Deputy Ministers' Committee, Treasury Board and an External Financial Advisory Committee (detailed government process to be developed).

SIOs/P3 proponents will be notified of the status of their business cases on a regular basis by Alberta Infrastructure line areas. P3RC will be similarly updated.

Phase 2 – Business Case Assessment


Start
Line area requests business case from SIO
Line area works with SIO to complete business case
SIO submits business case to line area
Line area assesses business case & develops recommendation
Line area contacts SIO for clarification if required
Line area documents results of business case assessment
to next page

Phase 2 – Business Case Assessment


from previous page
Business case assessment successful?
No
Line area advises SIO of results
Yes
Line area documents results of assessment & develops recommendation
Line area forwards business case & recommendation to P3RC
P3RC reviews business case & recommendation
Business case supported by P3RC
Yes
No
P3RC advises line are of result
Line area advises SIO of status
CPI process for prioritization
Government process (detailed process under development)

Criteria for Business Case Assessment

If the answer to a question below is "yes," indicate whether to a high (1), medium (2) or low (3) extent.

Strategic Alignment

Criteria	Yes (1, 2, 3)	No	N/A	BC reference / Notes
Does the project propose a program that is not approved or a priority?				
Does the project align with the SIO's program priorities?				
Does the project address emerging program needs?				
Overall Strategic Alignment				

Business and Operational Impact

Criteria	Yes (1, 2, 3)	No	N/A	BC reference / Notes
Does the project improve public accessibility to services or programs in a way that would not be possible without the partnerships or business arrangement described in this P3 opportunity?				
Does the project offer a new way to deliver services that would not be possible outside the context of this P3 opportunity?				
Does the project provide an opportunity for increasing the tax base of the municipality that would not be possible outside the context of this P3 opportunity?				
Does the project provide an opportunity for the creation of new employment opportunities in the community that would not be possible outside the context of this P3 opportunity?				
Does the project address environmental/recovery issues that would not be possible outside the context of this P3 opportunity?				
Is the project free of jurisdictional or liability issues preventing a public body from using a P3 approach?				
Does the project honour collective agreements?				

Criteria	Yes (1, 2, 3)	No	N/A	BC reference / Notes
Does the project honour procurement policy and arrangements such as AIT (Agreement on Internal Trade)?				
Does the project have any inherent technical constraints (design and construction) that cannot be solved by a private partner?				
Can the public sector develop appropriate technical specifications for the project?				
Does the site layout/location and utilization provide accessibility to other programs and services nearby?				
Does the design concept meet program requirements?				
Is the facility an environmentally healthy building?				
Is the design sustainable to serve future public needs?				
Is it the most flexible functional design?				
Can a private partner realistically address all operational issues?				
Does the project improve access to research facilities that would not be possible outside the context of this P3 opportunity?				
Does the project improve the opportunity for securing new research grants that would not be possible outside the context of this P3 opportunity?				
Does the project improve access to health care that would not be possible outside the context of this P3 opportunity?				
Does the project improve access to learning that would not be possible outside the context of this P3 opportunity?				
Does the project provide an opportunity for training that would not be possible outside the context of this P3 opportunity?				
Does the project provide new program development or curriculum offerings that would not be possible outside the context of this P3 opportunity?				
Does the new program require approval by a specific department?				
Has this approval been provided?				
Does the project reduce dependency on government grants?				

Criteria	Yes (1, 2, 3)	No	N/A	BC reference / Notes
Does the project broaden the community served beyond the primary service area (e.g. Harley Davidson program for specialty technicians at Fairview College) that would not be possible outside the context of this P3 opportunity?				
Is this project eligible for Canada Foundation for Innovation funding from the Government of Canada?				
Overall Business and Operational Impact Assessment				

Project Risk Assessment

Criteria	Yes (1, 2, 3)	No	N/A	BC reference / Notes
Does the project promote a "win-win" situation for both the public and private sectors and for the community?				
Will the program or service provision change during the life-span of the facility?				
Does the proponent have experience in the delivery of P3 initiatives of comparable complexity and scope?				
Does the proponent have prior experience in P3, joint ventures or other alliances?				
Do the proponent's proposed companies have experience working as a team in a P3 or joint venture?				
Does the proponent have a record of delivering projects on time and within budget?				
Do the proponent's resources have appropriate skills and competencies for the project?				
Does the proponent's team have sufficient depth and bench strength?				
Does the proponent's project leader have appropriate experience and expertise, especially with P3 projects?				
Is the relationship with the proponent already established?				
Does the design include exclusive spaces, such as clean rooms, which can be problematic if the program changes for the facility?				

Criteria	Yes (1, 2, 3)	No	N/A	BC reference / Notes
Does the project require a change to legislation, e.g. temporary disposition/lease land so public ownership of Reserve lands is retained?				
Are public and private sector accountabilities clearly documented?				
Can the private partner be held accountable for performance?				
Can appropriate mechanisms be established to monitor partner performance?				
Would this project add a new innovative approach that the government may want to explore for broader applications?				
Overall Project Risk Assessment				

Cost/Benefit Analysis – Financial

Criteria	Yes (1, 2, 3)	No	N/A	BC reference / Notes
Does the project save capital investment dollars through the partnership?				
Does the project save capital investment in comparison with a public sector benchmark?				
Does the project provide a net benefit to the taxpayer?				
Does the project provide an adequate return on capital investment? For example: Annual savings will pay back in more than 7.5 years but less than 10 (lowest ranking) Annual savings will pay back in more than 5 years but less than 7.5 (medium ranking) Annual savings will pay back in 5 years or less (highest ranking)				
Does the supported infrastructure organization own the facility at the end of the term with no additional costs to the government?				
Does the project avoid future liabilities for the government?				
Does the project propose a long-term lease greater than 5 years?				
Does the project propose a build/own/operate/maintain concept?				

Criteria	Yes (1, 2, 3)	No	N/A	BC reference / Notes
Does this project eliminate deferred maintenance by replacing an old building with a new one?				
Does this project avoid deferred maintenance when the period/term for the building ends?				
Have all known fixed costs been identified and assumed as the proponent's risk? Fixed costs include design build agreement, tenant fit up and furniture and capital replacement (mechanical, roofs, electrical, etc.).				
Is the proponent responsible for replacing major building systems throughout their term of ownership?				
Overall Cost/Benefit Analysis Assessment				

P3RC Recommendation:

(Summarize the recommendation)

Alberta Infrastructure

Submit to
2nd Floor, 6950 – 113 Street
Edmonton, Alberta
T6H 5V7

Public Private Partnership (P3) Business Case for Building Projects Supported by Alberta Infrastructure

[Project Name]

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Introduction

Introduction:

This document was developed to allow Alberta Infrastructure to assess proposed Public-Private Partnership proposals for building infrastructure owned or supported by the ministry. It outlines the information requirements, which are then reviewed and assessed using the criteria outlined in the P3 Guidance Document published by Alberta Infrastructure. This document was developed using the standard Government of Alberta business case template, supplemented to include additional information requirements for P3 projects. It should be noted that this P3 business case template is to be used for Alberta Infrastructure owned or supported projects.

The P3 approach will not be the right solution for every project, nor will it replace conventional pay-as-you-go capital financing. However, there are some situations where such an approach may work well. The use of a "business case" is the method under which all P3 projects submitted to Alberta Infrastructure are assessed, evaluated and approved. This assures that all P3 projects pull together the best resources and skills from both the public and private sectors and that there is a net benefit to taxpayers over the life of a project.

Opportunity Paper vs. Detailed Business Case:

The extent to which the business case is documented is contingent on the scale and available information of the project proposed. The detailed business case should be a natural extension of the Opportunity Paper, as opposed to an entirely different document. The business case evolves and should reflect the information and knowledge that is available at a particular moment in time. For example, the Opportunity Paper may only provide an assumption-based model of how the P3 may look (perhaps based on the information of an EOI), while the detailed business case would be based on a specific proponent's proposal (based on an RFP).

A good business case will establish the following:

- The project meets a business need, is affordable, achievable, with appropriate options explored and is likely to achieve value for money;
- Confirm that the scope and business requirements are clear, realistic, unambiguous and achievable;
- Establish that appropriate options were considered and reasons for a preferred option is established;
- The project is likely to deliver the established objectives and have positive business and operational impacts;
- Major risks have been identified and the preferred option includes adequate mitigation options;
- There is internal and external support and authority and adequate funding for the project.

Section 1

Executive Summary

Purpose of an Executive Summary:

The reason for writing an Executive Summary is to provide a concise summary of the key highlights of the business case. The reader should be able to understand what the project is about, the role of the project in the department's business plan/direction, and the business justification of the project. The reader should understand how the project improves the overall efficiency and/or effectiveness of the government.

Description:

While the Executive Summary appears at the beginning of a business case, it is written last.

The Executive Summary will describe the objective of the project, the current state of the problem and the resulting opportunity. It outlines the scope of the project in general terms, and briefly describes the competitive environment i.e., what other government jurisdictions and/or corporations are doing. The Executive Summary also provides a brief description of the business impact, and the risks of undertaking the project. Finally, it concludes with recommendations and the financial impact of the project. This summary should also be written with the media in mind, as this is often the only part of a report that the media read. The Executive Summary is also often used to prepare a press release.

The summary should be a maximum of 2 pages in length. .

Checklist for Executive Summary:

1. Will the reader get a clear understanding of the reasons for the project and its outcome by outlining the "Why, What, When, Who, and How" of the project?
2. Does it contain any information that is not contained in the body of the business case? (should not)
3. Is the Executive Summary less than 2 pages?
4. Can the Executive Summary be treated as a stand-alone document?

Section 2

Background

Purpose of the Background Section:

The reason for writing the Background Section is to provide the reader with an introduction to the subject of the business case. This section describes the history and current state of affairs giving rise to or relating to the general business problem or opportunity that is the subject of the business case.

Problem / Opportunity

Description:

The P3 business case should clearly establish the underlying business problem or opportunity that the project will address. This may originate from either a program or infrastructure perspective. For example, the need for a new building may be based primarily on increasing cost to maintain or may be primarily based on supportinga program need. Where possible, the project should be based on both program and infrastructure need.

Examples of general business problems are:

- Not meeting service level expectations
- Escalating service costs
- Change in business requirements
- Change in legislation

Current Situation

Description:

This section provides a synopsis of what is happening currently within the ministry, if applicable, what has led to the current situation, and what is likely to happen if the current situation is maintained. The current situation can be defined in terms of relevant legislative requirements, organization structures and responsibilities, human resources, processes, and technology. This should be described from both a program and infrastructure perspective.

Checklist for Background Section:

1. Is there an understanding of the business need?
2. Is the business problem or opportunity clearly defined and where possible related back to both a program and infrastructure perspective?
3. Are the relevant facts on both the program and infrastructure clearly outlined including the relevant history and current situation and the resulting problems or opportunities?
4. Where necessary, does the current situation include available statistical information?

Section 3

Project Description

Purpose of the Project Description Section:

The reason for writing the Project Description Section is to provide the reader with a clear definition of the what the project will accomplish (objective), what the project will and will not include (scope), what are the expected results (outcomes) and who are the players (stakeholders).

Project Description

This section provides an explanation of how the project will address the business problems/opportunity identified in Section 2. Again, it should be from both a program and infrastructure perspective. The project description should be broad enough to include any procurement option.

Objectives

Outlines what the project will accomplish, in clear and measurable terms within a specified time frame. These objectives can be used in a post-implementation review to review and assess the success of the project. The objectives should be formulated broadly enough so that meaningful alternatives are not ruled out, and narrowly enough so that only relevant alternatives are considered and that costs and benefits can be formulated. Objectives should be focused on goals, not operations, and on outputs and outcomes, not production. Differentiate between objectives that relate to the program and those that relate to the infrastructure.

Examples of program objectives include:

- Reduce processing time from 1 hour to 30 minutes, by March 2003
- Reduce administration costs from $1.2 to $1.1 million for the 2003 fiscal year

Examples of infrastructure objectives include:

- Maximize the efficiency of the building to reduce heating costs by 5%
- Staged approach to development to support changing requirements over the next 20 years

Scope

This section defines parameters of the project. Specifically, it describes the time frames, department/organization, function and technology.

Differentiate the scope items between those that relate to the delivery of the program and those that relate to the infrastructure.

Time frame: Explains specific details about when the project will start and end.
Department/Organization: Details the specific locations/sites, if applicable and departments or group of departments who will be involved in the project.
Function: Describes what functions of the department/organization the project involves.
Technology: Defines the boundaries within which the project must work, i.e. use of existing systems, compliance with established standards.

Out of Scope

This section includes items that are specifically excluded from the project from both a program and building perspective.

Anticipated Outcomes

This section itemizes specific and measurable deliverables of the project. Each outcome includes an estimated time frame of when the outcome/deliverable will be completed (in terms of elapse time from project start).

Outcome/Deliverable	Estimated Completion
Detailed Business Requirements Document	3 Weeks
Project Design Document	6 Weeks

Stakeholders

List all interested parties that may be impacted (positively or negatively) by the project. Categorize the parties between internal (a Ministry within the government) / external (party outside of government) and primary (directly impacted and involved in the project) / secondary (impacted but is not directly involved in the project). For each party include an overview of their business requirements of the project.

Identify any stakeholders that may only be involved in certain procurement alternatives. Include any information that may indicate the level of interest from the private sector to participate in a P3 approach.

Stakeholders:	Overview of Business Requirements
Primary – Internal	
Stakeholder 1	Requirement 1 Requirement 2 …
Stakeholder 2	Requirement 1 Requirement 2 …
Primary – External	
Stakeholder 1	Requirement 1 Requirement 2 …
Secondary – Internal	
Stakeholder 1	Requirement 1 Requirement 2 …
Stakeholder 2	Requirement 1 Requirement 2 …
Secondary – External	
Stakeholder 1	Requirement 1 Requirement 2 …
Stakeholder 2	Requirement 1 Requirement 2 …

Checklist for Project Description Section:

1. Is it clear what the project will accomplish from both a program and infrastructure perspective??
2. Are the needs of each stakeholder clearly understood?
3. Is it clear what is not included in the project and what it will not accomplish from both a program and infrastructure perspective?
4. Will the reader know all parties that will be impacted by the project?
5. Are the general requirements of each stakeholder clearly laid out?
6. Are the timelines of the project clearly outlined?
7. Does the business case mention consultation that has taken place with possible P3 partners?

Section 4

Strategic Alignment

Purpose of the Strategic Alignment Section:

The reason for writing the Strategic Alignment Section is to provide the reader with an understanding of how the project aligns with the overall business plan of the ministry and how it may impact other initiatives. The project should align with the business plan goals for both the program ministry (e.g. Alberta Learning in the case of school facilities) and Alberta Infrastructure. This section should clearly identify that the project is supported by all stakeholders and contributes to their long-term business direction and strategy.

Description:

Review the business plans of all internal stakeholders and identify specific goals that the project will help achieve. Identify the extent to which the project will help achieve the various business plans' goals by scoring it using the following guidelines:

- 1 indicates a high extent.
- 2 indicates a medium extent.
- 3 indicates a relatively low extent.

Goal from Ministry Business Plan	Level of extent	Explanation (if required)

Checklist for Strategic Alignment:

1. Have business plan goals from both AI and the program ministry been included?
2. For goals that have been assigned a high level of impact, is the project truly critical to achieving the goal?
3. Does the explanation support the evaluation of how the project impacts the goal?
4. Does the project align with the current business strategy and business plan? Will there be support for this project using a P3 approach?

Section 5

Environment Analysis

Purpose of the Environment Analysis Section:

The reason for writing the Environment Analysis Section is to provide the reader with an understanding of what other organizations (internal and external) have done or are doing to address similar types of problems. The reader can use this section to compare the proposed business case direction to that of other organizations and industry trends.

Description:

The Analysis should include what is happening in other government departments, other government jurisdictions and private industry, that directly relates to the scope of the project. Research may include such information as:

- The length of their project
- Specific project outcomes
- Critical success factors
- Project Cost
- Benefits achieved
- What the organizations would have done differently
- Lessons learned

This section includes any findings from research studies that identify industry trends and best practices.

Checklist for Environmental Analysis:

1. Are the organizations chosen for the Environmental Analysis representative of your situation, specifically in terms of size and complexity?
2. Are the sources of the research reliable and has the data been verified?
3. Is the time period of the research study applicable to the current situation?
4. Have conclusions have been made from the research?
5. How is the research incorporated or considered in the business case?

Section 6

Alternatives

Purpose of the Alternatives Section:

The reason for writing the Alternatives Section is to provide the reader with an outline of the possibilities that are available to address the problem or opportunity. It provides the reader with a rationale as to why some have been eliminated as viable alternatives. Finally, it provides a detailed description of viable options that will address the business problem or opportunity. A viable option usually includes a 'do nothing' option (status quo).

Description:

List all possible solutions that may meet the business problem or opportunity. Based on a practical and common sense analysis, narrow the list to include only viable alternatives, stating the reason for excluding an alternative. Valid alternatives should not be simply excluded due to funding constraints. Only the viable alternatives will be further detailed and carried forward into following sections of the business case.

For each viable alternative, explain the key features including people, processes and systems. Discuss how each viable option addresses the business problems and meets the objectives of the project within the outlined scope as stated in Section 3 – Project Description.

Each alternative must be defined in sufficient detail to enable identification of specific impacts (Section 7 – Business & Operational Impacts), project risks (Section 8 – Project Risk Assessment), and benefit and costs (Section 9 – Cost Benefit Analysis). Include partnership and shared service opportunities that may enhance the business outcome of an alternative.

Include any detailed requirements analysis in an appendix.

General

Generally a P3 business case will consider the following three alternatives:

1. Status Quo (do nothing)
2. Traditional Approach (Public Sector Comparator)
3. Public-Private Partnership (P3)

The following sections describe each of these alternatives in more detail and outline considerations when defining each alternative.

Status Quo

The status quo alternative reflects the "business as usual" approach. This alternative should reflect continuation of the existing infrastructures and should reflect the necessary activities that may be required to maintain their usefulness. Be sure to include any changes that may be needed to support the program requirements, and highlight any requirements that may not be met. The inability of the status quo option to not meet any fundamental requirement may cause the status quo option to not be viable.

Public Sector Comparator Alternative

The public sector comparator (PSC) alternative is used to establish the cost of providing a facility and/or a service under a traditional procurement model. It will serve as a "benchmark" to evaluate the P3 alternative. A public sector comparator **must** be included as one of the alternatives in a P3 business case.

i. Definition of a PSC

An estimate of the hypothetical risk adjusted cost (using net present value), if a project were to be financed, owned and implemented by government i.e. the full and true cost to government for meeting the output specification under a public procurement delivery method.

ii. Purpose

A PSC can serve several purposes, including:

- creating a base cost for a project with which to compare the viability of a P3 proposal, and
- benchmarking key project parameters such as output specifications and risk allocation to examine the impacts of changing arrangements and assumptions.

iii. Components

The PSC is comprised of three components:

Base Costs – represents the base cost to government of producing and delivering the project including those costs associated with the design, construction and operation. In addition it should include those periodic costs associated with the delivery of services.

Transferable Risk – those risks that are likely to be transferred to the private sector because they are best able to manage the risk at least cost.

Retained Risk – those risks that government proposes to bear itself.

The PSC is the Net Present Value (NPV) of each component added together to establish the total net present value of a public procurement.

P3 Alternative

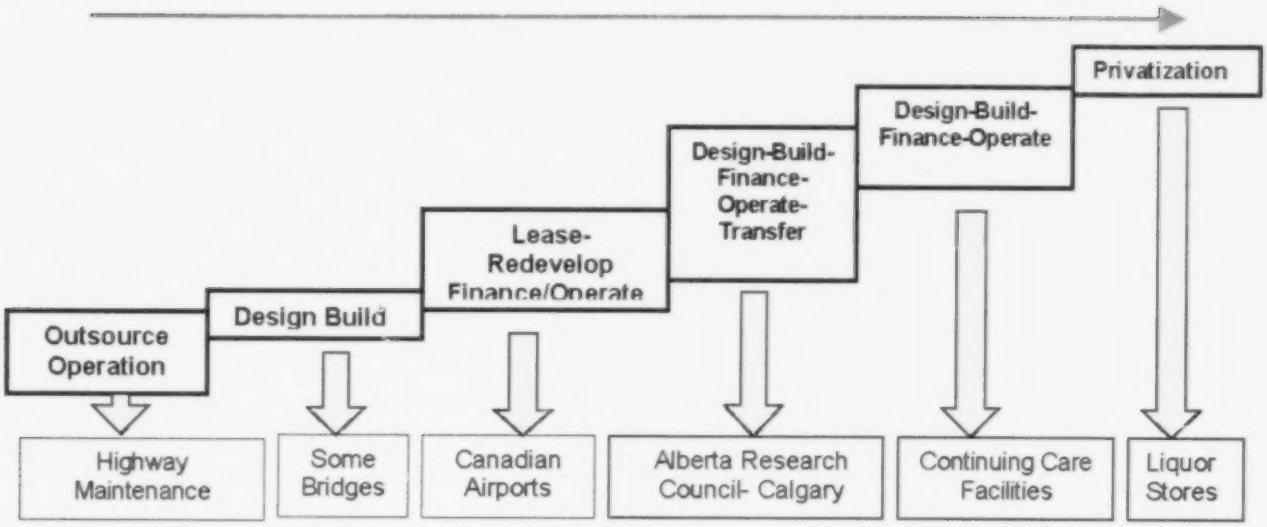
Various options could be considered in the structuring of a Public-Private Partnership (P3). Arrangements may emerge that represent variations of a more common option that best address the project requirements. At the early project stages, the opportunity case may provide a range of options that could be considered in the P3 approach (perhaps supported by the submissions of an Expression of Interest). The detailed business case will provide much more clarity around the P3 approach (based on detailed business requirements and responses from a Request for Qualification/Request for Proposal). In either case, the business case must provide a clear description of what characteristics will be included in the P3.

The following information may help identify the characteristics of the P3:

P3s can be categorized based on the extent of public and private sector involvement and the degree of risk allocated. The options range from outsourcing, where the government hires a private company to provide services for a fee, to outright privatization, where the government transfers all responsibilities, risks and rewards for service delivery to the private sector.

A simplified spectrum of typical P3 arrangements would consist of:

Figure 1



The functions in part or in total that could constitute a P3 are: operating, designing, building and financing.
The possible arrangements are:

- Operate
- Design/Build
- Design/Build/Operate
- Design/Build/Operate/Finance

These are defined as:

Operate - a public entity contracts with a private partner to operate and maintain a publicly owned facility (e.g. property management services).

Design/Build - the government selects a private sector consortium to take on both the design and construction of the infrastructure project. Selection of the consortium is typically on preliminary design concept, construction approach and price. The contract may consist of specifications and drawings or standards and performance measures. The objective is to reduce unnecessary work/costs and change orders by enhanced communication and by linked remuneration between designers and builders.

Design/Build/Operate - The private sector is responsible for the design, construction and operation of the infrastructure. A selection of the consortium is typically based on preliminary design concept, construction approach, operations and maintenance plans and price. The private sector involvement may be ongoing or on a concession basis, i.e. a set time period. The government may choose to retain a monitoring or regulatory role. An example would be the development and operation of a continuing care facility where the government has provided the capital for the design and construction of the facility. Once the infrastructure is built, the private sector partner also operates it, i.e. provides the continuing care services to the client population. The price for the capital component is typically a guaranteed maximum price with liquidated damages for late completion, with payments in full at the completion of construction, and the price for the operating component is typically a periodic payment over the operating term.

Design/Build/Operate/Finance - The private partner in addition to the design, build and operating responsibilities, assumes responsibility for financing the project. A selection of a consortium is typically based on a preliminary design concept, construction approach, financing plans and price. Payment is typically made over an extended term, and covers operating costs as well as service on capital (debt and equity) used to finance design and construction. The payment formula can take a variety of forms.

The advantages and disadvantages of these various arrangements are highlighted for discussion purposes in Figure 2:

Figure 2
Procurement Options

Procurement Options	Advantages	Disadvantages
Operate Example: Property management contracts. Often viewed as standard practice for government and supported infrastructure.	❑ Potential for greater efficiencies, lower operating costs than if government operated. ❑ Ownership remains with government. ❑ Access to private sector experience.	❑ Collective agreement may not easily permit proposed arrangement. ❑ Costs would be incurred in the event of a default or breach. ❑ Less control and ability to respond to changing conditions. ❑ Contractor could have incentive to cut costs and offer lower level of service – may impact long-term costs
Design/Build Example: Health facilities, e.g. continuing care centres, parkades. Schools. Office space – tenant improvements.	❑ Private partner has substantial portion of responsibility for delivering project within budget, i.e. public entity holds minimal capital budget risks. ❑ Potential for innovative cost savings and reduced construction time. ❑ Fewer design/construction related disputes.	❑ Reduced government control. ❑ Difficult/expensive to amend contract once construction started. ❑ Higher costs may result from higher operating costs if life cycle costs not considered. This may be addressed through appropriate specifications and long-term warranties.
Design/Build/Operate Example: Common approach to some health facilities, particularly in the continuing care sector, before the introduction of the private sector financing feature	❑ Limited government involvement in either providing or operating the facility. ❑ Government can regulate operation. ❑ Potential for greater efficiency both in short-term and over life of facility. ❑ Start-up issues addressed by private partner. ❑ Design Build advantages also apply.	❑ Loss of some control over construction and operating decisions.

Procurement Options	Advantages	Disadvantages
Design/Build/Operate/Finance Example: Privately owned continuing care facilities. Residences and parkades at post-secondary institutions. Alberta Research Council Building in Calgary.	❑ Same advantages as Design/Build/Operate. ❑ Imposes capital market discipline on the project. ❑ Private partner assumes some or all the financing risks.	❑ Same disadvantage as Design/Build/Operate. ❑ Private partners financing costs could be higher than public entity's. ❑ May constitute a capital lease for public entity. ❑ May engender unfavorable longer-term service/operating arrangements in order that the service contract coincides with the building contract.

Checklist for Alternatives Section:

1. Has a Status Quo alternative been discussed, and determined as either viable or not viable?
2. Has a public sector comparator been included as an alternative?
3. Have the individual characteristics of the P3 alternative been identified?
4. Have all possible solutions been identified?
5. Have all viable alternatives been determined? Is there sufficient reason for the exclusion of possible solutions?
6. Are the alternatives truly distinguishable?
7. Are the viable alternatives defined at a sufficient level of detail to define costs and benefits?
8. Where possible, do alternatives take advantage of partnerships and shared service opportunities?
9. Have any critical success factors been highlighted for each alternative? Have critical success factors been identified for all alternatives?
10. Have all constraints for each alternative been identified?

Section 7

Business & Operational Impacts

Purpose of the Business & Operational Impacts Section:

The reason for writing the Business & Operational Impacts Section is to provide the reader with a list of all business and operational impacts for each stakeholder. Each impact is described and analyzed for each viable alternative.

Description:

For each stakeholder (outlined in Section 3) identify all business (strategic, longer term focused) and operational (procedural, detailed focused) impacts that may arise from the project.

Examples of business impacts are:

- Change in service and/or products being provided
- Change in focus or direction of the department

Examples of operational impacts are:

- Staff training required
- Reduction of staff resources

For each impact identify extent of the impact for each alternative using the following guidelines:

- 1 -the extent of impact is significant and stakeholder support and preparation is critical to the alternative's success
- 2 - there is a manageable impact to the stakeholder
- 3 - the alternative will have a minor impact on the stakeholder
- 0 - indicates that the stakeholder will not be impacted by the alternative

If necessary, document the rationale for the evaluation.

Impact & Description	Alternative 1	Alternative 2	Alternative 3
Stakeholder 1:			
Impact 1 – a description of impact 1	2	1	1
Impact 2 – a description of impact 2	2	2	2
...			
Stakeholder 2:			
...			
...			

There are six typical categories of impacts when dealing with an infrastructure project. Analysis of these impacts is critical to understand the differences between a P3 and any other approach. Consideration should be given to these categories when identifying and analyzing the project impacts. The individual impacts should be from both an infrastructure and program point of view.

Financial	Will the partnership yield value for money for the government? This is typically determined through a cost/benefit analysis comprised of: a comparison of the full life cycle costs and risks between public procurement and the private alternatives; and an examination of the other non-quantifiable costs and benefits. Is the project financially viable on its own? Private sector partners expect that the financial return from the project will reflect the success of its efforts. Projects can be made financially viable through appropriate allocation of risks to the partner best able to manage them, through government support, and through recourse to user pay mechanisms.
Technical	Are there any unresolved design or construction considerations that could significantly affect the ultimate cost of the project? Are the expected outcomes and specifications and the processes for monitoring the private partner's performance clear and feasible?
Operational	Can appropriate operational standards be developed for the project partner?
Acceptability	Will a P3 approach be acceptable to the community, stakeholders and government staff? Is there local level support?
Implementation	Is there an adequate pool of interested private sector firms with sufficient expertise and senior management support to develop and implement a P3 project? Are there any legislative or regulatory barriers to proceeding with the project?
Timing	Are the timelines adequate to resolve the issues raised by the above criteria?

Checklist for Business & Operational Impacts

1. For each stakeholder, have all business & operational impacts been identified?
2. Has the magnitude of impact been accurately evaluated for each alternative?
3. Have all stakeholders been considered?
4. Have risks that specifically relate to each alternative been included?

Section 8

Project Risk Assessment

Purpose of the Project Risk Assessment Section:

The reason for writing the Project Risk Assessment Section is to provide the reader with an understanding of the risks that are related to the project and how these risks may vary by viable alternative. This section includes a risk mitigation strategy for each risk.

Risk of Project and each Viable Alternative (Not including Status Quo)

Description:

Identify all project risks that may relate to the project. A risk is a factor or event that may jeopardize the project from achieving the anticipated benefits or increase the cost of the project.

Risk Identification:

Project risks have been identified and categorized by other governments. Figure 3 can act as a checklist in helping to identify the risks a project can present.

Figure 3
Potential P3 Project Risks

Risk category	Description of risk
Commissioning risk	That the infrastructure will not receive all approvals necessary to satisfy a particular output specification because expected changes to legislation that would allow this output do not occur.
Construction risk	That construction of the project will not be completed on time, within budget or to specification.
Demand (usage) risk	That actual demand for a service is lower than planned.
Design risk	That the proposed design will be unable to meet performance and service requirements in the output specification.
Environmental risk	That the project could have an adverse environmental impact not foreseen in the environmental impact assessment, which has an unforeseen effect on project costs.
Financial risk	That the private sector overstresses a project through inappropriate financial structuring.
Force majeure risk	That an unanticipated disaster (such as war, earthquake or flood) of such magnitude occurs that it delays or destroys the project and cannot be mitigated.
Industrial relations risk	That industrial relations issues will adversely affect construction costs, timetable and service delivery.

Risk category	Description of risk
Latent defect risk	That an inherent defect exists in the structure being built or equipment being used that was not identified up front and that will inhibit provision of the required service.
Operating risk (service under-performance)	The risks associated with the daily operation of the project, including an unexpected change in operation costs that put the project over budget.
Performance risk	That the operator will not perform to the specified service level, such as a power generator supplying less power than demanded.
Change in law risk	That the current regulatory regime will change materially over the project or produce unexpected results.
Residual value risk	That the expected realizable value of the underlying assets at the end of the project will be less than expected.
Technology obsolescence risk	That the technology used will be unexpectedly superseded during the term of the project and will not be able to satisfy the requirements in the output specification.
Upgrade risk	The risks associated with the need to upgrade the assets over the term of the project to meet performance requirements.

Having identified the risks engendered by a project the next task is to establish the expected value of those risks. A possible approach to estimating the value of the risks could include assessing their costs and probability of the risks. These costs should be included in the cost/benefit section of the business case.

Risk Assessment:

Public Private Partnerships Organizational Options & the Risk Transfer Continuum

Public Sector Risk

Private Sector Risk

- Contribution Contract
- Operation & Maintenance Contract
- Design, Build
- Design, Build & Maintain
- Design, Build and Operate
- Build, Lease, Operate & Transfer
- Build, Transfer, Operate
- Build, Own, Transfer
- Build, Own, Operate, Transfer
- Build, Own, Operate
- Transfer to quasi public authority
- Buy, Build, Operate

Adapted from: Allen, John R, "Public Private Partnerships: A review of the Literature and Practice", p.11.

For each project risk, identify the probability of the risk occurring and the impact it may have on each alternative, using the following guidelines:

Probability of Risk

- High - indicates that the event is high likely to occur
- Medium - indicates that the event is likely to occur
- low - indicates that the event is not likely to occur

Impact of Risk

- 1 - indicates that the event has a significant impact to the project
- 2 - indicates that the event will impact the project
- 3 - indicates that the impact is relatively minor to the project
- 0 - indicates that the risk will not impact the project

If necessary, document the rationale for the evaluation.

Project Risk Assessment	Viable Alternative 1		Viable Alternative 2		Viable Alternative 3	
	Probability	Impact	Probability	Impact	Probability	Impact
Risk 1 – a description of risk 1	High	2	Low	3	Medium	3
Risk 1 General Mitigation Strategy	*Specific Strategy*		*Specific Strategy*		*Specific Strategy*	
...						
Risk 2 – a description of risk 2	Low	Medium	Medium	Low	Medium	Medium
Risk 2 General Mitigation Strategy	*Specific Strategy*		*Specific Strategy*		*Specific Strategy*	
...						

Risk of Not Proceeding with Project (Status Quo)

Project Risk Assessment	Status Quo	
	Probability	Impact
Risk 1 – a description of risk 1	High	2
Risk 1 General Mitigation Strategy	*Specific Strategy*	
...		
Risk 2 – a description of risk 2	Low	2
Risk 2 General Mitigation Strategy	*Specific Strategy*	
...		

Checklist for Project Risk Assessment

1. Have all general / major project risks been identified?
2. Have all risks specific to each alternative been identified?
3. For each risk has the specifics of each alternative been taken into consideration when evaluating the probability and impact?
4. Has a risk mitigation strategy been identified for unacceptable levels of risk?
5. Have the risks related to Status Quo been identified?
6. Is there an opportunity to structure the P3 to share the identified risks?
7. Will there be willingness for the private sector to share in the risks?

Section 9

Cost/Benefit Analysis

Purpose of the Cost/Benefit Analysis Section:

The reason for writing the Cost/Benefit Analysis Section is to provide the reader with an evaluation of the costs and benefits associated with each viable alternative. The reader can easily understand and compare the initial and ongoing expenditures to the expected financial and non-financial benefits, for each viable alternative.

Status Quo:

The costing for the status quo should be based on historical costs and forecasted into the future.

Public Sector Comparator:

The costing for the public sector comparator is based on previous infrastructure projects. These costs should include the internal cost of undertaking the project. Alberta Infrastructure can provide benchmark costing that may help in identifying the costs.

P3 Cost Determination – Private Sector Shadow Bid

The PSC establishes a benchmark for comparison purposes. However, the PSC alone does not allow an estimation of potential P3 costs/benefits at the planning stage. Hence, provided it is practical to do so, consideration can be given to estimating the potential costs of a P3 and identifying areas where expected benefits could occur. This is especially necessary for an opportunity paper when there is no specific proposal.

A shadow bid can be developed by modeling the project as if it is constructed, owned and financed by the private sector. In addition it may include a defined range of services to be provided by the private sector partner over the concession/contract period. The analysis should identify one-time costs of establishing the partnership, including the procurements process, as well as, costs associated with monitoring the contract and liaising with the partner through the life of the contract.

Quantitative Analysis – Financial Cost & Benefit

Description:

Full Cost Analysis

A typical P3 will include a full life cycle cost analysis. All costs and expected benefits resulting from this opportunity should be analyzed for each viable alternative (including the costs and benefits of status quo). This methodology provides the reader with a total cost picture and includes both capital and operating expenditures. Any detailed worksheets should be attached as an appendix.

Incremental Cost Analysis

If it is not possible or practical to fully analyze the entire cost or where the incremental project costs are relatively small to the entire cost, an incremental approach may be used. This methodology involves identifying the changes or differences between each alternative, using the projected benefits/costs of the status quo alternative as a basis.

Time Frame:

Identify an appropriate project time frame over which both the cost and benefits will be analyzed. Time frame should be appropriate to the expected life cycle of the project, from incurring costs to achieving the anticipated benefits.

The standard analysis time frame for a building business case is 25 years.

Costs:

Identify all relevant costs incurred by all stakeholders (initial, ongoing, direct and indirect) over the chosen project time frame:

- Capital Items:
  - Planning and bridging
  - Construction
  - Building Purchases
  - Land Purchases
  - Specialized equipment
  - Information Technology
  - New Furnishings
  - Change Orders/Scope Changes

- Annual Operating Items:
  - Program Salary and Benefits
  - Program Supplies and Services
  - Leases
  - Building Operations

- Cyclical Items:
  - Building maintenance
  - Information Technology
  - Furnishings

- Receipts:
  - 3rd Party Lease Revenue
  - Parking Revenue
  - Sale of existing land
  - Sale of existing buildings

- Residual Value:
  - Buildings
  - Land

Consideration should be given to:

- When the costs will be incurred
- Who will incur the costs
- Certainty of costs

Benefits:

Identify all quantifiable benefits related to all stakeholders, over the chosen project time frame.

Expected Value for Money

The expected value for money is the difference between the net present value of the PSC and the net present value of the proposed P3 as indicated by the private sector shadow bid.

In addition to estimating the cost differences it would be worthwhile to describe the potential areas that could create value for money opportunities. For example:

- Early completion
- Capital savings
- Operational savings
- Revenue generation

Consideration should be given to:

- When the benefits will be achieved
- Who will be the be the recipient of the benefits
- Certainty of benefits

A sample of a Summary Cost Benefit Template:

Summary of Quantitative Cost/Benefit	**Status Quo**	**Public Sector Comparator**	**P3**
Capital Items			
Annual Items			
Leases			
Program			
Building Operations			
Cyclical Items			
Receipts			
Residual Value			
Total NPV over 25 years			

A sample Costing Template for each Viable Alternative:

Quantitative Analysis – Alternative 1	**Year 0**	**Year 1**	**Year 2**	**...**	**Year 25**
Capital Items:					
Planning and bridging					
Construction					
Building Purchases					
Land Purchases					
Specialized equipment					
Information Technology					
New Furnishings					
Change Orders/Scope Changes					
Annual Operating Items:					
Program Salary and Benefits					
Program Supplies and Services					
Leases					
Building Operations					
Cyclical Items:					
Building maintenance					
Information Technology					

Furnishings					
Receipts:					
3rd Party Lease Revenue					
Parking Revenue					
Sale of existing land					
Sale of existing buildings					
Residual Value:					
Buildings					
Land					
Net Cost (Revenue):					
Net Present Value (X%):					

Analysis:

A "Net Present Value" calculation is used to account for the fact that $1 today is not worth the same as $1 five years from now, due to inflation and interest rates. The use of a "Net Present Value" calculation should be used to take into account the time value of money, regardless of whether the full or incremental cost approach is used.

If there are some assumptions that have a significant impact on the cost or benefit, a sensitivity analysis should be presented. Contingency allowances or interest rate premiums should be used to account for differences in certainty/risk. The cost/benefit analysis should be reviewed for reasonableness through the use of benchmarks, other organizations' experience, industry data, etc. This would include the use of a public sector comparator for public-private partnership projects.

Qualitative Analysis – Non-Financial Benefits & Costs:

Some of the costs and benefits may not be quantifiable (difficult to attach a dollar value). For example non-quantifiable benefits may be: increased customer satisfaction or increased staff morale. Non-quantifiable costs may be: reduced corporate image or adverse public perception. Where reasonable, these should be translated into quantifiable benefits, i.e. increased staff morale, may lead to high productivity, which may lead to less overtime. However, the non-quantifiable cost/benefits that cannot be translated into quantifiable cost/benefits should be summarized in the following manner. Examples typically associated with a P3 alternative are:

- Loss of control or accountability
- The change and upheaval associated with partnering
- Loss of in-house expertise
- Risk transfer as a benefit or a liability

Viable Alternative 1

Qualitative Summary	Description	Stakeholder(s) Impacted
Benefits:		
Benefit 1	Description of benefit 1	
Benefit 2	Description of benefit 2	
Costs:		
Cost 1	Description of Cost 1	
Cost 2	Description of Cost 2	

Financial Framework

This section details some of the key features of the Province's approach to financial administration and how those features can impact project (P3) decision-making. The reader who does not have a financial background is encouraged to review their project proposal with the ministry's financial services group to fully explore the potential impacts of a project upon the Province.

1. Budgetary Implications

While the decision to initiate a public private partnership should be primarily driven by the business case, the structure of the arrangement will determine the budgetary treatment of the arrangement and the approval levels that are required. Currently, if the P3 arrangement is treated as a capital lease, the total net present value of the lease payments is recorded as an expenditure in the year that the asset was acquired. This treatment of capital leases using Public Sector Accounting Board (PSAB) Guidelines and the definitions of expenditure under financial legislation generally does not encourage capital lease arrangements where the government is the lessor. Changes to financial legislation are being considered as a result of the recommendations of the Financial Review Commission. The Commission recommended that government accounting practices align more closely to those of the private sector, whereby the cost of the asset would be amortized over the life of the asset. Under private sector accounting, the annual expenditure would be the amortized cost, rather than the entire capital cost, as it is under current legislation. If this treatment were adopted, the ministry's budget would need to provide for the annual amortization cost. This would be a recurring financial obligation for the life of the capital asset.

2. Capital Leases

The formation of a P3 that involves the leasing of assets (buildings/equipment) should include a thorough review of the key characteristics of the lease. This review should help to establish whether it is a capital or operating lease.

a. Definition

The PSAB Proposed Guidelines define a leased tangible capital asset as follows:

A leased tangible capital asset is a non-financial asset having physical substance and a useful life extending beyond an accounting period, and is held under lease by a government for use, on a continuing basis, in the production or supply of goods and services. Under the terms and conditions of the lease, substantially all of the benefits and risks incident to ownership are, in substance, transferred to the government without necessarily transferring legal ownership.

Following is a summary of the criteria for assessing transfer of benefits and risks. In determining conclusively whether a particular lease arrangement constitutes a capital lease, the guidelines in their entirety should be reviewed.

b. Criteria for Assessing Transfer of Benefits and Risks

The benefits and risks of ownership would be transferred to the lessee when, at inception of the lease, one or more of the following conditions are present:

- There is a reasonable assurance that the lessee will obtain ownership of the leased property by the end of the lease term, either by the terms of the agreement or provision of a bargain purchase option.
- The lease term is of such duration that the lessee will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its lifespan (usually 75% of the economic life of the property).
- The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement (generally, if the net present value of the lease payments is at least 90% of the fair market value of the property).

The following additional factors are also considered in determining whether the risks and benefits are transferred to the government:

- **Government Intent**

  Whether the government has a need for the asset in providing a service on a continuing basis.

- **Use of the Asset**

  Whether there are restrictions related to the use of the asset that restrict the lessor's use of the asset. Examples include:

  - Government retains ownership of the land.
  - There are substantial penalties to be paid if the government terminates a lease.
  - The government guarantees demand for use of the asset, such as the traffic on a road or number of patients in a health facility.
  - Placing restrictions on how idle capacity can be used.

- **Financing**

  - Whether the government contributes significant assistance to finance the cost of acquiring or constructing the asset through grants, loans or loan guarantees.
  - Whether the lease term is approximately the average term for which the government issues its long-term debt (10 years or more).
  - If the agreement contains provisions for significant future cost increases to be passed on to the government.

- **Construction Risk**

  Whether the government bears the financial implications of cost and time over-runs during the construction period or subsequent warranty repairs.

- **Operating Risk**

  Significant penalties associated with the operation of the asset rest with the government.

- **Specialized Nature of the Asset**

  The asset is used to provide a service that is considered to be essential in nature (e.g. schools, prisons, roads and highways, utilities systems) and, either, the government is unlikely to be able to provide the essential service without the leased asset, or, there is no alternative use for the asset (e.g. roads or highways).

- **Obsolescence**

  Risks of obsolescence are significant and these rest with the government.

3. Debt Implications of Capital Leases

The *Government Organization Act* defines the authority of Ministers. This definition precludes Ministers other than the Provincial Treasurer from incurring debt on behalf of the Province. The *Universities Act*, *Colleges Act*, *Technical Institutes Act*, *Banff Centre Act*, and the *Health Authorities Act* require these entities to seek approval by Order in Council in order to incur debt. The Minister of Learning can approve issuance of debt for school boards pursuant to the *School Act*.

While the *Financial Administration Act* definition of debt does not specifically include capital leases, the authority of Ministers and supported entities to enter into capital leases could be challenged since they are treated as long-term liabilities on the financial statements of the Province.

Assumptions

All assumptions used to determine, both quantitative and qualitative, costs and benefits should be clearly documented. This would include general assumptions as well as assumptions specific to each alternative. Any assumptions used to forecast the status quo, develop the public sector comparator, and establish the P3 alternative should be well documented. These assumptions will be re-visited as the project moves through the various stages of implementation and may be changed or removed.

Checklist for Cost/Benefit Analysis Section

1. Have all quantitative costs and benefits been identified?
2. Have all qualitative costs and benefits been identified?
3. Is the time frame appropriate considering the expected lifespan of the project?
4. Can any of the non-financial items be converted to financial items?
5. Are all the assumptions clearly identified?
6. Have all common/general assumptions been applied consistently to each alternative?
7. Have assumptions been reviewed to identify the sensitivity of their estimate on the impact of the results?
8. Have benchmarks, other organization's experience, industry data been used to validate costs and benefits?
9. Has a public sector comparator has been included for comparative purposes?
10. Are assumptions applied equally across alternatives?
11. Has the discount rate been identified and consistently applied to each alternative?
12. Has an inflation factor been used fairly and consistently across each alternative?
13. Is this project affordable?

Section 10

Conclusions & Recommendations

Purpose of the Conclusion & Recommendation Section:

The reason for writing the Conclusion & Recommendation Section is to provide the reader with a selected alternative based on an overall evaluation of the alternatives in terms of impact, risk, and cost/benefit. Specific recommendations for moving the project forward are also presented.

Conclusions

Description:

This section will recap each of the alternatives based on their Business & Operational Impact, Project Risk Assessment, and Cost/Benefit Analysis. Based on these results, a conclusion on which alternative should be chosen would be made.

Alternative	Business & Operational Impact	Project Risk Assessment	Cost/Benefit Analysis
Alternative 1	Describe overall assessment	Describe overall assessment	Describe overall assessment
Alternative 2	Describe overall assessment	Describe overall assessment	Describe overall assessment
Alternative 3	Describe overall assessment	Describe overall assessment	Describe overall assessment

Choose the recommended alternative based on the above recap, selecting the alternative that maximizes the effectiveness and efficiency while minimizing risk and cost.

Recommendations

Description:

This section will make specific recommendations on proceeding with the project.

The extent of the recommendation may range from recommending approval for full project implementation to recommending a more detailed requirements analysis be done to validate some key business case components.

Project Responsibility

Description:

Recommend who should be the Project Manager and as such have responsibility for managing the implementation. This section would include any additional governance aspects related to cross-government projects.

Project Accountability

Description:

Recommend who should be the Project Sponsor and as such have overall accountability to ensure the project is completed. This section would include any additional governance aspects related to cross-government projects.

Section 11

Implementation Strategy

Purpose of the Implementation Strategy Section:

The reason for writing the Implementation Strategy Conclusion & Recommendation Section is to ensure that those approving the business case understand the resources they must allocate (people, dollars, time) to complete the recommended next steps of the project.

Description:

Outline the proposed implementation plan for the recommended next steps at a high level. Enough detail should be provided so that those approving the business case understand the resources they must allocate (people, dollars, time) to complete the recommended next steps of the project.

This section should include:

- Major project phases
- High-level work plan, deliverables and target dates for completion
- Costs ($) required to carry out the implementation plan
- Personnel (departments, roles) required
- Proposed project structure
- Assign responsibility for implementing and monitoring the risk mitigation strategies (Section 8)

Project Implementation:

This section of the guide is intended to provide an understanding of the important aspects associated with the implementation of a P3. This section is somewhat cursory in nature and cannot possibly address all of the major issues a project can engender nor can it identify all the situational matters that arise with the unique circumstances of a specific project. It is expected, however, with a carefully considered project organization, complete with teams of skilled professionals, the public interest will be protected throughout the implementation phase. **This information is to be used as reference information when developing a P3 implementation strategy. The business case does not need to include a full implementation plan.**

Project Organization

Because private public partnerships can result in relatively complex and longer term relationships among the partners it is worthwhile to structure a number of teams without overlapping responsibilities and with a sufficiently broad terms of reference to ensure an adequate set of checks and balances.

1. **Project Team** – this team should be dedicated full time to the project and be formulated once a P3 opportunity has been identified. The team can be enhanced by additional resources and expertise from the public or private sector. The program department should appoint a project manager to act as leader and to hold primary responsibility for the development of the project plan and its successful implementation. The team would be supported with legal and financial advisors and other resources as required. Having developed the project plan in detail this team will seek budgetary resources to effect its implementation and hold responsibility for the management of the budget.

2. **Evaluation Team** – this team develops and applies detailed evaluation criteria in accordance with the general evaluation criteria stipulated in the public sector comparator and shadow bid analysis, the business case, the Request for Information and the Request for Proposal stages of the project. This team works under the direction of the project manager who can serve as an ex-officio member

of this team. There can be more than one evaluation team depending on the complexity and size of the project (e.g. financial, technical and managerial requirements).

3. **Steering Committee** – this Committee, which is typically resourced with senior staff of Infrastructure, the program department and Alberta Finance, receives reports from the project team and the evaluation team. It monitors and approves project direction, and provides policy guidance throughout the process. It may review the business case, the Request for Qualifications, disqualification decisions, the Request for Proposal and other key documentation and process issues. It also holds responsibility for establishing the evaluation plan and retaining an independent evaluator.

4. **Process Auditor** – this team serves to audit the procurement process and to provide an independent written report, qualified as required, on the process followed. This role is fulfilled by individuals that are external to the organization.

5. **Ongoing Management** – P3 projects will require continued demands for management oversight. Some members of the Project Team should continue to work with the private partners via a Committee established though the relevant agreement(s). As such the public partner must continue to discharge its public policy obligations by monitoring project/program delivery on a routine basis.

Project Plan

The project plan is a comprehensive document that details how, when, and by whom the project will be implemented. The project team, in developing the plan, will define the objectives and requirements and debate the various tradeoffs and contrasts associated with the project. Several matters could arise, such as:

- term of arrangement
- scope of the project (technical, operational, managerial and financial)
- legal structure
- qualifications of potential bidders
- degree of competition in marketplace
- areas for creativity and ingenuity
- areas for specified requirements
- extent of government control

A project plan should provide a description of:

- scope
- selection process
- negotiation process
- implementation and operation

1. Scope

Project scope as referenced earlier provides a clear definition of the boundaries of the planned undertaking. Potential areas for consideration are:

a. **Financial** – estimated total cost, request capital & operating budget approach cash flows, role of private partner in financing.

b. **Technical** – the specification with respect to infrastructure requirements, service standards and expected outcomes.

c. **Operational** – the services expected from all parties in the partnership.

d. **Implementation Timing** – the key steps in the establishment of the partnership together with the start and end dates for each step.

e. **Communication** – the plan to communicate project information of interest to stakeholders and the public.

2. Selection Process

Once scope has been agreed upon the project team should determine its strategy for:

- identifying and selecting the best partner, and
- defending its process once chosen.

Because the government is experienced in conducting procurement processes the matter will not be given extensive treatment here.

The project team is encouraged to review these processes to ascertain where changes may be necessary. Often public organizations are excellent at enumerating their own requirements but are limited in their capacity to consider the potential constraints faced by bidders.

Some points to consider:

a. Documenting the Selection Process

The process of selecting a qualified private-sector partner should be accurately documented and recorded. At the minimum, this should include:

- ❑ the names of all potential respondents to a Request for Qualifications (RFQ), a Request for Expressions of Interest (RFEI) and a Request for Proposal (RFP),
- ❑ reasoning for the elimination of potential partners at each stage of the evaluation process,
- ❑ minutes of all meetings, a copy of all addendums issued,
- ❑ a review of how each of the submissions was compared and evaluated at the RFQ, RFEI and RFP stages of the process, and
- ❑ all information that was disclosed in response to questions or requests for information from potential partners and how the requests were handled[1].

Maintaining these documents and records is essential as it ensures that the selection process was fair, open and transparent. This approach should build trust with the private sector with respect to future partnership opportunities.

b. Drafting the RFEI and RFQ

The RFQ or RFEI should be drafted so that the following are addressed:

- ❑ the objectives in seeking a public-private partnership,
- ❑ a description of the existing service and the budget framework (if applicable),
- ❑ the nature of the proposed partnership,
- ❑ the contribution and expectation of the skills the preferred partner will bring to the partnership,
- ❑ mandatory submission requirements and instructions to respondents,
- ❑ the evaluation scheme including weightings or other considerations that will be applied to each element of the evaluation, and
- ❑ the full extent of the selection process, including timetables.

c. Request

Submissions from interested parties should include the following information:

- ❑ a clear understanding of the scope of the project and the government's needs,
- ❑ a profile of the potential partner (if the partner is to be a consortium formed for the purpose of providing a proposal, each person or firm in the consortium should provide information on its principal business and the length of time that it has been in operation),

[1] Compliance with relevant access to information legislation such as the *Freedom of Information and Protection of Privacy Act* should be noted. In addition, protection of proprietary information needs to be assessed throughout the process.

- the identification of the contact person for the private partner,
- a statement of financial capability including access to capital (debt and equity), and
- a statement of performance capability that includes an overview of overall experience, experience in similar projects, senior management expertise, expertise of those staff members who will work on the project, ability to obtain necessary resources and references.

d. Drafting a Request for Proposal

Generally, a two-stage process is envisioned for the identification and selection of a P3 partner. Information provided at the initial stage (RFEI and RFQ) can be useful in drafting the RFP. For example, the potential partners may have expressed innovative or cost-saving ideas at an earlier stage that the government project team can utilize in the development of the RFP. However, the project team must first ensure that these ideas are not protected or proprietary. A suggested precaution to avoid any difficulties is to obtain a sign-off of proprietary matters by the affected proponent(s) and in so doing, enable its inclusion in the RFP.

If an RFQ has been used to short list qualified candidates, the project team should already have a strong indication of the information required to draft the RFP. This information would include goals, how goals are to be achieved, budgets and cost savings expected to occur through the public-private partnership.

The RFP should ask respondents to identify proprietary information and explain how the project team plans to treat such information. Respondents should be made aware of the *Freedom of Information and Protection of Privacy Act* and any related legislation.

e. RFP Submission Requirement

Mandatory elements to include in the RFP document are:

- a profile of the potential partner making the application (if the partner is to be a consortium formed for the purpose of providing a proposal, each person or firm in the consortium should provide information on its principal business and the length of time that it has been in operation),
- a statement of financial capability, including access to capital (debt and equity), and
- a statement of performance capability that includes an overview of overall experience, experience in similar projects, senior management expertise, expertise of those staff members who will work on the project, ability to obtain necessary resources, and references.

If the information provided in this mandatory portion of the proposal is not satisfactory to the project team, potential partners can be eliminated. This initial screening will save time and allow the project team to give their full evaluation attention to fewer potential partners.

f. Additional Matters

The project team should also consider:

- its process for conducting briefing seminars,
- its process for responding to questions,
- confidentiality and security procedures, and
- conflict of interest.

At each stage of the process briefing sessions should be held. Any material changes that occur should be communicated as an addendum to the RFP document. All participants should receive a copy.

Questions should be dealt with by a predetermined standardized procedure.

Confidentiality and security procedures may be required where it is necessary to protect proprietary information and intellectual property. However, the *Freedom of Information and*

Protection of Privacy Act and related legislation should be thoroughly reviewed to ensure process compliance.

3. Negotiation Process

Minimizing the scope of the project that is subject to negotiation is an important project team objective. A workable negotiation process is important to the development of cost effective partnerships. Periodically firms once selected, will endeavor to dilute their commitments in the negotiation phase. The project team needs to be alert to these and other strategies that could significantly impact the project.

There are a number of strategies one could follow at the negotiation phase. One strategy is to issue the formal legal agreements as part of the Request for Proposals. Proponents that accept the agreement(s) are then evaluated primarily on a financial basis. Another strategy is to select a proponent for negotiation purposes only, place a limited time frame on the process and move to another proponent if a satisfactory agreement is not reached within the stipulated time. This approach must be carefully managed so that a sense of good faith is maintained.

Some other helpful suggestions are:

- utilize the project team to lead the negotiations,
- support the team with expertise and resources,
- prepare a "walk-away" terms of reference,
- seek measurable commitments, and
- assess the proponent position.

4. Implementation and Operation

Essentially there are 3 phases to a project:

- development/construction,
- operations, and
- termination.

The project team must ensure legal counsel is involved in documenting all of the critical elements for each phase. This may necessitate the generation of several agreements. Overall the legal structure should address:

- **Financial matters** – these arise where the private partner is providing capital. Debt incurred by the partner through borrowings from financial institutions (mortgage) and government (a forgivable loan) will need to be secured. Similarly the equity requirements of various partners may necessitate certain forms of agreement (joint venture syndication).
- **Physical matters** – these will arise as a result of specific site conditions e.g. is the site owned or leased? Are there conversion opportunities in event of lower than expected program activity? Are there shared or common resources such as parking, HVAC, food?
- **Operational matters** – this includes definition of mechanisms for monitoring ongoing service delivery. Performance measures that help define the "deliverables" are useful, particularly if the agreements detail recourse provisions in the event of failure to meet the specifications.

Attention needs to be given to this documenting these critical elements as commitments can be eroded where management is less involved in ensuring compliance on a continuing basis.

With respect to termination provisions one of the key challenges will be to ensure that end-of-term conditions for service delivery and infrastructure are adhered to (e.g. maintenance). Termination provisions should also address the conditions that could give rise to termination and the basis on which the parties will effect an arrangement (e.g. purchase option exercised during the term so that the public partner can take ownership).

Section 12

Review & Approval Process

Purpose of the Review & Approval Process Section:

The purpose of writing the Review & Approval Section is to clearly present the reader with who and how the business case has been reviewed and approved. This section will also contain the final outcome of the business case. If the business case is approved the evidence of the approval should be included. If the business case is not approved, the business decision behind either rejecting the project or deferring the project should be documented.

Review Process

Description:

Who will review the business case?

Approval Process

Description:

What is the approval process and who is involved?

Business Case Signoff

Description:

The business case should be signed and dated by the approving person(s), indicating whether or not the business case is approved. If applicable, approval conditions should be identified. If the business case is not approved, reasons for the decision should be documented.

P3 Glossary of Terms

Terms	Definition
Alternative Service Delivery (ASD)	Method of service delivery where a third party is contracted to provide services and meet defined service commitments and standards of performance (e.g. Alberta Registries).
Alternative funding	Could include public-private partnerships, capital leases, capital bonds and other borrowing.
Assessment procedure	Procedure for critically examining and estimating the merit and value of a proposal, following an established sequence that includes examining proposal documents such as Policy, Objectives, Guidelines and Tools.
Assessment criteria	A set of established rules for making a judgment.
Benchmarking	The process of comparing the method, time or cost of an operation, service or product against those of other organizations, preferably those thought to be the best in the land.
Board approval	Approval given by the nominated or elected board of each Supported Infrastructure Organization.
Business case	A document describing a project or initiative in a specific format.
Capital plan	A list of capital projects, listed by priority, addressing needs for a specific length of time (e.g. five-year capital plan).
Community	The public at large.
Condition	Performance criteria used by all provincial ministries with responsibility for owned or supported physical infrastructure, measured by establishing the percentage of physical infrastructure rated as being in acceptable condition. (For details, see Program area Capital Planning Manual.)
Consolidated Master Capital Plan	A Government-wide (all ministries) list of capital projects listed by priority.
Design and Build	A contract where a single supplier is responsible for designing and constructing a built asset.
Detailed business case	Business case describing a project that includes the details received from the selected successful proponent.
Discounting	A method used to convert future costs and benefits to present values using a discount rate.

Terms	Definition
Discount rate	The annual percentage rate at which the present value of a future dollar is assumed to fall away through time.
Expression of Interest (EOI)	First stage of a competitive process, used to identify the potential interested proponents for a specific initiative or project or for a number of initiatives or projects.
Facilities management	Management of services relating to the operation of a building. Could include such activities as maintenance, security, catering and external and internal cleaning.
Freedom of Information and Protection of Privacy (FOIP) Act	Freedom of Information and Protection of Privacy Act, Chapter F-25 Statutes of Alberta, and any regulations under the Act.
Functionality, or functional adequacy	Performance criteria used by all provincial ministries with responsibility for owned or supported physical infrastructure, measured by establishing the percentage of physical infrastructure that provides acceptable functional service.
Implementation	Once a partner is selected, a contract is established with the Alberta government and a detailed project plan that reflects the priorities of the project is developed and approved.
Line area	A branch of Alberta Infrastructure responsible for a specific program.
Net present value	The discounted value of a series of future costs, benefits or payments.
Open book accounting	A description of arrangements whereby part or all of a contractor's financial records for a project can be seen by the authority.
Opportunity paper	A document outlining high-level information on a P3 project. First phase of the P3 Assessment Procedure. This phase acts as a go/no-go where Alberta Infrastructure can comment on the potential of a P3 Initiative.
Output specification	The specification of the Government's requirements in terms of the desired outputs rather than inputs.
Preferred bidder	A bidder selected from the shortlist to carry out exclusive negotiations with the Government.
Program	An activity designed to provide a distinct service to the people of Alberta.

Terms	Definition
P3 Public-Private Partnerships	A cooperative venture between the public and private sectors, built on the expertise of each partner, that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards.
Proponent	An individual organization submitting a written proposal following a solicited proposal call, or an individual organization submitting a written proposal that is unsolicited.
Refinancing	The process by which the terms of the funding put in place at the outset of a P3 contract are later changed during the life of the contract, usually with the aim of creating refinancing benefits for the contractor.
Request for Information (RFI)	First stage of a competitive process, used to identify the potential interested proponents for a specific initiative or project or for a number of initiatives or projects (also called EOI).
Request for Proposal (RFP)	Third stage of the competitive process, used to receive detailed proposals from the proponents identified at the EOI (or RFI) and RFQ stages.
Request for Qualification (RFQ)	Second stage of the competitive process, used to receive detailed information from potential proponents regarding their qualifications in relation to a specific project or initiative.
Solicited proposal	Proposal that has been requested by the government for a specific project. This could be for a supported and funded project or for a high priority project that has not yet received funding.
Stakeholders	Stakeholders include: municipalities, boards, health regions, contractors, financiers, employees and their trade unions, the public, local community groups, special interest groups, and the people who use or provide the financing, assets and services.
Successful proponent	The short-listed proponent whose proposal advances to the discussion and negotiation phase.
Supported Infrastructure Organization (SIO)	School Boards, Health Region Boards, Post-Secondary Institution Boards.
Traditional approach (Non-P3 process)	Project delivery methodology used by Alberta Infrastructure to develop priority infrastructure projects. In this approach, the Government funds 100% of the facility by providing a capital grant to the SIOs or by building its own project and using an in-house project management team. The design/bid/build approach is used to tender and build the project.

Terms	Definition
Treasury Board	A group of Cabinet ministers appointed by the Premier to serve as a financial committee for the Government, providing financial and management policy direction and approval for those transactions.
Unsolicited proposal	Proposal for a specific project that has not been requested by Government
Utilization	Performance criteria used by all provincial ministries with responsibility for owned or supported physical infrastructure and measured by establishing the percentage of physical infrastructure for which utilization level is within targeted capacity.
Value for money	The optimum combination of whole life cost and quality to meet a customer's requirements.
Whole life approach	Taking a view of the construction, operation and maintenance of the asset over the whole life of the project.

Risk Identification

When undertaking a P3 project it is critical to understand all factors or events that may jeopardize the proponents' ability to achieve the anticipated benefits of the project, or that may increase the cost of the project. These factors or events are project risks. It is essential to assess the probability and impact of each category of risk, and to determine how each risk will be mitigated or managed. The following identifies and categorizes potential project risks, and is a useful checklist to help identify risks a potential P3 project can present.

Potential Project Risks

Risk category	Description of risk
Commissioning risk	That the infrastructure will not receive all approvals necessary to satisfy a particular output specification because expected changes to legislation that would allow this output do not occur.
Construction risk	That construction of the project will not be completed on time, within budget or to specification.
Demand (usage) risk	That actual demand for a service is lower than planned.
Design risk	That the proposed design will be unable to meet performance and service requirements in the output specification.
Environmental risk	That the project could have an adverse environmental impact not foreseen in the environmental impact assessment, which has an unforeseen effect on project costs.
Financial risk	That the private sector overstresses a project through inappropriate financial structuring.
Force majeure risk	That an unanticipated disaster (such as war, earthquake or flood) of such magnitude occurs that it delays or destroys the project and cannot be mitigated.
Industrial relations risk	That industrial relations issues will adversely affect construction costs, timetable and service delivery.
Latent defect risk	That an inherent defect exists in the structure being built or equipment being used that was not identified up front and that will inhibit provision of the required service.
Operating risk (service under-performance)	The risks associated with the daily operation of the project, including an unexpected change in operation costs, that put the project over budget.
Performance risk	That the operator will not perform to the specified service level, such as a power generator supplying less power than demanded.

Risk category	Description of risk
Change in law risk	That the current regulatory regime will change materially over the project or produce unexpected results.
Residual value risk	That the expected realizable value of the underlying assets at the end of the project will be less than expected.
Technology obsolescence risk	That the technology used will be unexpectedly superseded during the term of the project and will not be able to satisfy the requirements in the output specification.
Upgrade risk	The risks associated with the need to upgrade the assets over the term of the project to meet performance requirements.